Calendar No. 654

99TH CONGRESS
2d Session

SENATE

REPORT
99-303

EXTENSION OF THE MANUFACTURING CLAUSE

REPORT

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

together with

MINORITY VIEWS

ON

S. 1822

MAY 19, 1986.—Ordered to be printed

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MAY 19, 1986.—Ordered to be printed

Mr. THURMOND, from the Committee on the Judiciary, submitted the following

REPORT

together with

MINORITY VIEWS

[To accompany S. 1822]

The Committee on the Judiciary, to which was referred the bill (S. 1822) to amend the Copyright Act in section 601 of title 17, United States Code, to provide for the manufacturing and public distribution of certain copyrighted material, having considered the same, reports favorably thereon with an amendment in the nature of a substitute and recommends that the bill as amended do pass.

I. GENERAL STATEMENT AND HISTORY OF THE BILL

The manufacturing clause of the copyright law is contained in section 601 of Title 17 of the United States Code which provides that material that is preponderantly of a non-dramatic literary nature and is written in English by an American author or by an author domiciled in the United States must be printed in the United States or Canada in order to be entitled to the full and unqualified protection of the U.S. copyright laws. This means that in order for an American author to receive the protection of the U.S. copyright law, his book, magazine, or other printed material which is comprised of more words than pictures, must be printed and bound in the United States or Canada. The current manufacturing clause is due to expire on June 30, 1986, and Congress must determine whether or not it will be extended.

The manufacturing clause has been a part of the copyright law since 1891. It was first adopted to protect the infant U.S. printing industry from more established and sophisticated foreign competitors, especially the British printers and publishers. As originally enacted, the manufacturing clause applied to all printed materials.

Over the years, the scope of the manufacturing clause has been narrowed in many respects. In 1905, the manufacturing clause was amended to permit works published abroad in languages other than English to be eligible for ad interim copyright.[1] The 1909 revision of the copyright law exempted foreign works in languages other than English from the operation of the clause.[2] It also provided for a limited system of ad interim copyright for English language works first published abroad and it added printing and binding to the manufacturing requirements.

In 1949, the ad interim exception for foreign authors writing in English was expanded to give those authors up to 6 months to register for copyright protection. The exception also allowed the importation of up to 1,500 copies of works during the interim period.[3]

The clause was once again amended in 1954 in order to meet the requirements imposed by the U.S. ratification of the Universal Copyright Convention. This amendment limited the application of the manufacturing clause primarily to works of U.S. authors.[4]

One of the most significant revisions to the manufacturing clause occurred during the 94th Congress. Senator John L. McClellan (D-Ark.) introduced S. 22, to make general revisions to the copyright laws, on January 15, 1975.[5] Included among those revisions was a proposal to narrow the scope of the manufacturing clause. The Senate passed S. 22 on February 19, 1976.[6] In the House, Representative Robert W. Kastenmeier (D-WI) introduced H.R. 2223 on January 28, 1975.[7] This bill also proposed general revisions to the copyright law. The House approved S. 22, with a substitute text, on September 22, 1975.[8]

A conference was subsequently held on S. 22 and the resulting legislation enacted on October 19, 1976, made several changes with regard to the manufacturing clause.[9] First, the legislation provided that the manufacturing clause would expire on July 1, 1982. The House bill had proposed that the clause expire on January 1, 1981, and the Senate bill did not contain an expiration date. Second, Canada was specifically exempted from the manufacturing clause. This exemption was included in anticipation of Canada's adoption of the Florence Agreement and joint removal of other restraints on printing and publishing trade between the United States and

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[1] Ad interim copyright provided a grace period wherein foreign authors could receive U.S. copyright protection for one year during which time they could comply with all of the formalities of the copyright act and thereby extend protection to the full term, provided that registration was made within 30 days of first publication. Act of March 3, 1905, ch. 1432, 33 Stat. 1000.

[2] Act of March 4, 1909, ch. 320, § 15, 35 Stat. 1078.

[3] Act of June 1, 1949, Pub. L. 84, ch. 171, § 1, 63 Stat. 153.

[4] Pub. L. 743, 61 Stat. 654, 656-68.

[5] 121 Cong. Rec. 286 (1975).

[6] 122 Cong. Rec. 3821-3859 (1976).

[7] 121 Cong. Rec. 1633 (1975).

[8] 122 Cong. Rec. 31977-32016 (1976).

[9] Pub. L. 94-553, 90 Stat. 2541; Conf. Rep. 94-1733.

Canada. The conference report went on to state that the Canadian exemption should be removed if Canada did not act accordingly.[10]

Third, the legislation created several exceptions to the manufacturing clause which effectively narrowed the scope of the clause. The following categories of works were exempted from the manufacturing clause:

(1) Works by American nationals domiciled abroad for at least a year;

(2) 2,000 copies of a work;

(3) Copies for governmental use, other than in schools, by the United States or by "any State or political subdivision of a State";

(4) The following copies for personal use: one copy of a work per person, copies in the baggage of persons arriving from abroad, and copies intended for the library collection of a nonprofit scholarly, educational, or religious organization;

(5) Braille copies; or

(6) A work of an American author that is first published abroad.

This section also provided that copies which were allowed entry under any of the above clauses may be distributed in the United States.

The issue of the continued existence of the manufacturing clause arose again in the 97th Congress, shortly before the clause was set to expire on June 30, 1982. At that time, the country was experiencing a serious economic downturn. On June 15, 1981, the Department of Labor had issued a report which concluded that the elimination of the manufacturing clause would result in a loss of up to 172,000 job opportunities in the printing and publishing industry and a total loss of as many as 367,000 job opportunities throughout the economy.

In response to concern regarding potential job losses, Senator Strom Thurmond (R-SC), on November 20, 1981, introduced S. 1880, to extend the manufacturing clause indefinitely.[11] In the House, Representative John Ashbrook (R-OH) had previously introduced H.R. 3940, a similar bill, on June 17, 1981.[12] On April 28, 1982, Representative Kastenmeier introduced H.R. 6198 as a compromise to H.R. 3940.[13] Under H.R. 6198, the manufacturing clause was proposed to be extended until July 1, 1986. The House passed H.R. 6198 on June 15, 1982.[14]

On June 23, 1982, the Senate Judiciary Committee considered S. 1880 and adopted an amendment to extend the manufacturing clause until July 1, 1986. S. 1880 was reported to the Senate that same day. On June 30, 1982, the Senate passed H.R. 6198, the House companion measure, in lieu of S. 1880.[15] In supporting passage of this bill by the Senate, Senators Thurmond, Chairman of the Judiciary Committee; Patrick J. Leahy (D–VT); and Arlen Specter (R–PA) stated on the floor that they favored an indefinite ex-

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[10] Conf. Rep. 94-1733, p. 81.
[11] 127 Cong. Rec. 13837-138 (1981)
[12] 127 Cong. Rec. 3069 (1981)
[13] 128 Cong. Rec. H1650 (1982)
[14] 128 Cong. Rec. 3451-53 (1982)
[15] 128 Cong. Rec. 7676-77 (1982)

tension of the manufacturing clause but were supporting the 4-year extension proposed by the House bill so that legislation could be enacted before the expiration of the manufacturing clause.

President Reagan subsequently vetoed this legislation, and on July 13, 1982, the Senate overrode that veto by a vote of 84-9.[16] The House overrode the veto on that same day by a vote of 324-82.[17]

Now, during the 99th Congress, the issue of the manufacturing clause is at the forefront once again. On November 1, 1985, Senator Thurmond introduced S. 1822, which would extend the manufacturing clause indefinitely and which would also allow countries to be exempted from the manufacturing clause if the United States Trade Representative (USTR) certifies that the country provides certain trade and copyright protections.[18] On December 13, 1985, Senator Howard Metzenbaum (D-OH) introduced S. 1938, which would extend the manufacturing clause indefinitely.[19] Both of these bills were referred to the Committee on the Judiciary. On January 21, 1986, the Patents, Copyrights and Trademarks Subcommittee held a hearing, at which the administration renewed its opposition to the manufacturing clause. Both bills were returned to the Full Committtee on February 27, 1986, without a mark-up by the subcommittee. In order to expedite consideration of this legislation, Senators Thurmond and Metzenbaum developed a substitute amendment which was approved by the Judiciary Committee on April 24, 1986. Senators Leahy and Specter joined as cosponsors on the compromise bill. Representatives from the Printing Industries of America, Inc.; the National Association of Printers and Lithographers; the Book Manufacturers Institute; the Graphic Communications International Union; the AFL-CIO, the Industrial Union Department, AFL-CIO; the United Paperworkers International Union; and the Association of American Publishers were instrumental in developing the substitute amendment and these organizations strongly support the bill approved by the Committee.

II. THE PROVISIONS OF S. 1822, AS REPORTED

Prior to reporting S. 1822, the Judiciary Committee fully and carefully considered whether the manufacturing clause should be extended.

At the hearing held on January 21, 1986, the Judiciary Committee heard testimony from 13 witnesses representing the administration, printers, graphic artists, authors, publishers and libraries. Proponents of this legislation, which include printers and printing unions, maintain that the extension of the manufacturing clause is necessary for two reasons. First, the clause is a significant form of leverage the U.S. Government has in negotiating with other countries for specific trade concessions in printed products. The U.S. printing companies have virtually no access to tariffs as a means to control imports. The United States is a party to the Florence Agreement and other United Nations Agreements that obligate the

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[16] 128 Cong. Rec. 8099-106 (1982)
[17] 120 Cong. Rec. 4016-23 (1982)
[18] 131 Cong. Rec. 14691-92 (1985).
[19] 131 Cong. Rec. 17604- (1985)

United States not to assess tariffs on "educational, cultural or scientific material." Further, the tariffs assessed on the scant variety of other printed material are minimal. Second, the expiration of the manufacturing clause would no doubt result in a substantial loss of job opportunities in the American printing industry.

The Committee believes that the manufacturing clause should, indeed, be extended indefinitely. As stated earlier, the manufacturing clause is a significant form of leverage that the United States has to encourage other countries to provide copyright protection to works of U.S. authors. If the clause is abandoned there would be no incentive for other countries to voluntarily provide such copyright protection. Further, the United States should not grant such a foreign trade concession to other nations which maintain onerous nontarriff and tariff barriers to trade in printed material. For example, in one country postage rates are higher on those publications manufactured abroad and distributed within that country than postage rates on publications manufactured in that country.

It has been suggested that the manufacturing clause may be inconsistent with the requirements for becoming a party to the Berne Copyright Convention. The Berne Convention for the Protection of Literary and Artistic Works is one of the two multilateral treaties which govern the enforcement of copyright law across national boundaries. The United States is not among them.

The international copyright relations of the United States and rights of its nationals in works first published after September 16, 1955 are governed by the other major treaty, the Universal Copyright Convention (UCC). Works of Americans published before 1955 are covered by a series of bilateral treaties with most countries of the world.

The UCC is a simple treaty which imposes few requirements on the level of copyright protection a signatory country must provide to its authors. It states simply that a country "provide for the adequate and effective protection of the rights of authors and other copyright proprietors in literary, scientific, and artistic works, musical, dramatic, and cinematographic works, and paintings, engravings, and sculpture." There are no specific guidelines as to what constitutes "adequate and effective" copyright protection under the UCC. The most important benefit to copyright owners provided by the UCC is "national treatment." In other words, citizens of any other member country receive the same copyright protection as that accorded to works of its own citizens.

The Berne Convention, on the other hand, specifically outlines a minimum level of protection which must be provided to copyright owners by each signatory country. Among the minimum standards which a country must meet under the Berne Convention are the following. A term of protection of at least life of the author plus 50 years must be provided to any work of authorship; works with no identifiable author must be protected for at least 50 years from the date they are first made available to the public. Also, the enjoyment of copyright protection "shall not be subject to any formality." [20]

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[20] Berne Convention for the Protection of Literary and Artistic Works (Paris Act, 1971), Article 5(2).

The official "Guide to the Berne Convention," published by the World Intellectual Property Organization, gives as examples of such formalities, requirement of "the deposit of a copy of a work; its registration with some public or official body; the payment of registration fees, or one or more of these." [21] The Guide goes on to emphasize that "[I]f protection depends on observing any such formality, it is a breach of the Convention." As noted by leading commentators on copyrights, this prohibition against formalities "has been and continues to be one of the major obstacles to our [the United States] adhering to teh Berne Convention, since it would mean doing away with the formalities of U.S. law, e.g., registration, deposit, notice, and the manufacturing requirement." [22]

Even though the 1976 Copyright Act brought U.S. law much closer to the legal standards of the Berne Convention, significant differences remain, of which the manufacturing clause is only one among many. The lack of recognition of the U.S. requirement of formalities—that is, deposit of works and registration with the Library of Congress—are the major obstacles to U.S. adherence to Berne which have nothing whatsoever to do with the manufacturing requirement.

The Committee believes that this modified version of the manufacturing clause is not inconsistent with the goals of the Berne Union, which are to protect authors' rights on a worldwide scale. In fact, the Committee maintains that this bill promotes those goals by using the manufacturing clause as a sanction only against those countries which raise trade barriers of their own to printed works and fail to protect copyrights.

Members of the Berne Union, would be eligible for a waiver of the manufacturing requirement under the reciprocity provisions.

Assuming the proposed new manufacturing clause were to have its intended effect of eliminating trade barriers to printed works abroad, it could actually promote the goals of Berne. In a few years, it is possible that the USTR would be able to use his certification authority to exempt blanketly all members of the Berne Union from the effects of the manufacturing requirement.

Furthermore, the process of entering into a new treaty is a two-way negotiation. It is perfectly appropriate for the United States to demand that, if it increases the level of copyright protection in its own laws to accommodate others, it receives something in return. Certainly, the requirement that nations remove barriers to our printed works is such a legitimate quid pro quo.

To the extent that major Western European countries would benefit from U.S. adherence to Berne, they might be induced to encourage fellow signatories to hasten full U.S. compliance with Berne standards by removing noncopyright barriers to printed works consistent with the goals of the Florence Agreement.

There are those who suggest that the manufacturing clause may violate the General Agreement on Tariffs and Trade (GATT). The GATT is an international trade agreement to which the United States became a signatory in 1934. This treaty contains an exception which "grandfathers" all laws of a country in existence at the

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[21] Id., at 33.
[22] Boorstyn, "Copyright Law" (1961) at 335.

time that country became a part to the treaty. Accordingly, U.S. laws in existence in 1934 cannot constitute violatons of the GATT. The manufacturing clause was a law of the United States in 1934 when we became a signatory to the GATT. Therefore, the Committee believes the manufacturing clause does not constitute a violation of the GATT.

Nevertheless, a GATT panel determined that because the manufacturing clause was set to expire in 1982, the extension until 1986 constituted "new law." The GATT council in 1984 upheld the 1982 ruling, even though it was clear that the 1982 law was merely an extension and did not make any substantive changes to the manufacturing clause. It should be noted that the USTR argued before the GATT panel that the 1982 extension was not new law. The Committee notes that the alleged "technical" violation would constitute the only violation of GATT on the part of the United States, whereas numerous other countries have many substantive violations of the treaty.

Further, the intent underlying the GATT is to encourage countries to do away with nontariff trade barriers. The Committee believes that this bill is fully consistent with the spirit of the GATT in that it encourages those countries with barriers to do away with such barriers while allowing countries which do not have such barriers to be exempted from the clause.

The substitute amendment approved by the Committee would extend the manufacturing clause in its current form until July 1, 1988, and would extend the Canadian exemption until January 1, 1989.

Beginning on July 1, 1988, those countries [23] which receive a certification from the USTR and the Secretary of Labor would be exempt from the manufacturing clause. The USTR would certify that the country provides certain trade and copyright protections to works of U.S. authors. The Secretary of Labor would certify that the country is taking or has taken measures to adopt laws that extend "internationally recognized worker rights" as listed in section 502(a)(4) of the Trade Act of 1974. A petition for certification could be filed by the country seeking certification, the USTR, or an interested party. Application for certification could be filed beginning January 1, 1987. The Committee believes that this offer of reciprocity will encourage those countries which do not currently provide such protection and would allow those countries which have adequate trade and copyright protection to be exempted from the manufacturing clause. In the event that the certification was later revoked, materials manufactured in the country before the revocation would be allowed to be imported into or distributed in the United States. Also, contracts or other agreements entered into before the revocation would remain in effect for 24 months after the revocation.

The extension of the manufacturing clause in its current form for 2 years will allow the printing industry to prepare for the expiration and will also give countries time to apply for their certifications. If a country is not granted a certification, the manufacturing

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[23] Proposed section 601(a)(2) provides that a country, territory, possession or other jurisdiction may become a certified country.

clause will continue to apply to that country even after July 1, 1988.

During consideration by the Committee, concern was expressed regarding the status of the Canadian exemption. The administration is currently engaged in trade negotiations with Canada and there is concern that if the Canadian exemption were removed as originally proposed by S. 1822, these negotiations would be jeopardized. The compromise bill extends the Canadian exemption to January 1, 1989. At that time, Canada will be exempted from the manufacturing clause only if it has received proper certification.

The Committee notes that the Canadian exemption originated in the Copyright Act of 1976 and was subject to two conditions: First, that Canada would become a signatory to the Florence Agreement, and second, that Canada and the United States would work together to eliminate existing barriers to trade in printed material in both countries. At this point in time, neither contingency has been satisfied. Canada has not become a signatory to the Florence Agreement and trade barriers in printed material continue to exist. Canada did agree to zero-rate the duty on books; however, this rate is set to expire on June 30, 1986, which coincides with the expiration of the manufacturing clause. Canada has also agreed to lower its tariff on catalogues to 20 percent ad valorem by 1987 and to change from an evaluation of imports from fair market value to transactional value, which has the effect of lowering the valuation. However, Canada has decided that due to the change to transactional value it will increase tariffs. Consequently, the tariffs on catalogues which currently stands at 31 percent is scheduled for reduction to 28.6 percent by 1987. The U.S. tariff on catalogues assessed at transactional value is 0.6 percent, and is scheduled for reduction to 0 percent in 1987. Further, Canada still has certain nontariff barriers on imported printed material. For example, Canada bars entry to foreign publications that contain over 5 percent of the total ad linage aimed specifically at the Canadian market. Also, foreign publications which make a split-run to include Canadian-only regional advertising are prohibited from entry.

Countries seeking exemption from the manufacturing clause after July 1, 1988, will have to receive a certification from the USTR and the Secretary of Labor. The USTR would have to certify to Congress that the country seeking certification has laws that provide adequate and effective copyright protection for works of U.S. nationals and that the country meets one of the following alternative conditions:

> (1) the country imposes no material nontariff barriers to trade in printed material, and the country imposes no tariff barriers to trade in printed material that is materially inconsistent with tariff bindings, if any, entered into by the country with the United States and the country is either a signatory to the Florence agreement or, if it is not, the country imposes no tariff barriers materially inconsistent with the provisions of Article I of that Agreement with regard to printed books, newspapers and periodicals, and catalogues of books as specified in clauses (i), (ii) and (viii) of Annex A to that Agreement; or

(2) the country has in force a free trade agreement with the United States governing trade in printed material and the country is a signatory to the Florence Agreement or, if it is not, the country imposes no tariff barriers materially inconsistent with the provisions of Article I of that Agreement with regard to printed books, newspapers and periodicals and catalogues of books as specified in clauses (i), (ii), and (viii) of Annex A to that Agreement.

The Florence Agreement, referred to in the preceding paragraphs, is a treaty which prohibits tariffs on educational, scientific and cultural material including printed material. Currently there are over 80 signatories to this Agreement of which the United States is one. Article I basically provides that no tariffs shall be placed on educational, cultural or scientific material. With regard to the above-mentioned free trade agreement, the only such agreement that is currently in force is between the United States and Israel, pursuant to the Trade and Tariff Act of 1984, 19 U.S.C. 2411 (1986).

The Committee notes that nothing in the description of the products identified in the specified clauses in Annex A to the Florence Agreement nor in the references to the absence of barriers to trade in printed material is intended to broaden the scope of materials subject to the manufacturing clause or to otherwise affect the exceptions to the clause.

In addition to certification by the USTR, the Secretary of Labor would have to certify to the Congress that the country is taking or has taken steps to afford to its workers "internationally recognized worker rights" as referred to in section 502(a)(4) of the Trade Act of 1974, 19 U.S.C. 2462(a)(4). These rights include the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of forced or compulsory labor, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health. The certification by the Secretary of Labor may be waived if the President determines that such waiver is in the national economic interest of the United States.

The procedure for obtaining a certification may be commenced by the USTR, the country seeking certification or an interested party which could be a person or corporation, etc., that wishes to do business in that country. The certification proceedings may be commenced on or after January 1, 1987, but any certification would not be effective before July 1, 1988. This would give jurisdictions the flexibility to plan ahead and have their certifications in place when the certification option becomes available. However, by providing that the certification process may not be commenced before January 1, 1987, the Committee does not intend to preclude earlier internal consideration being given to pertinent matters by the responsible authorities, the exercise of appropriate contacts with other countries concerning these matters at any time, or the USTR's consideration, at its discretion, of analyses, reports, or the like undertaken or completed for this or other purposes. This section also makes it clear that materials manufactured before July 1, 1988 may not be imported into the United States even if the coun-

try in which the material was manufactured subsequently becomes a "certified country."

It is the Committee's belief that Japan and the countries of the European Community meet the requirements for certification and would, therefore, be able to be certified soon after January 1, 1987 so as to permit reasonable planning and the importation of copies manufactured in those countries commencing on July 1, 1988.

The certification may be withdrawn by the USTR or the Secretary of Labor, after notifying the Congress, if any of the certification criteria cease to be satisfied. The Committee intends that both the USTR and the Secretary of Labor will periodically review the continued compliance of the certified countries with the provisions of S. 1822. In the event that a certification is withdrawn, copies manufactured in the country prior to the effective date of the withdrawal shall be allowed to be imported into and distributed in the United States. Also, copies manufactured pursuant to any contract, agreement, or understanding entered into, or reasonable expectation relied upon, prior to the effective date of the revocation may be imported into and distributed in the United States for 24 months following the effective date of the withdrawal.

In order for a reasonable expectation to be produced, steps must be taken toward entering into a manufacturing agreement. For example, a reasonable expectation would be produced if a publisher receives cost of production estimates made in connection with considering acquisition of a manuscript or outline. The above-mentioned exceptions protect investment, business, or like decisions by permitting for a reasonable period of time the importation and distribution of copies manufactured before withdrawal of certification, and of copies made later on the basis of earlier decisions. The same provisions would apply with respect to Canada in the event that Canada is not a certified country on January 1, 1989.

Any proposed notification of certification or withdrawal of certification must be published in the Federal Register with a 30-day public comment period. The USTR or Secretary of Labor would specify the effective date in the notification or withdrawal which could not be less than 30 days.

III. SECTION-BY-SECTION ANALYSIS

S. 1822, as reported by the Judiciary Committee, makes several changes to section 601 of title 17 of the United States Code.

Section 2(a) amends section 601(a) to delete the current July 1, 1986 expiration date of the manufacturing clause, thereby extending the clause indefinitely.

Section 2(b) amends section 601(a) to delete the current Canadian exemption from the manufacturing clause. This section adds a new subsection (1) to 601(a) which extends the current Canadian exemption until January 1, 1989.

A new subsection (2) to 601(a) provides that a "certified country" may be exempted from the manufacturing clause on or after July 1, 1988. This subsection also sets out the requirements for becoming a "certified country."

First, the USTR must certify to Congress that the country which is being certified provides adequate and effective means under its

laws for U.S. nationals with regard to copyright and that the country meets one of the following alternatives:

(1) The country imposes no material nontariff trade barriers in printed material; and the country imposes no tariff barriers to trade in printed material that is materially inconsistent with tariff bindings, if any, entered into with the United States; and the country is a signatory to the Florence Agreement or if it is not, the country imposes no tariff barriers materially inconsistent with the provisions of Article I of that Agreement with regard to the items specified in clauses (i), (ii), and (viii) of Annex A to that Agreement; or

(2) The country has in force a free trade agreement with the United States regarding trade in printed material; and the country is a signatory to the Florence Agreement or, if it is not, the country imposes no tariff barriers materially inconsistent with the provisions of Article I of that Agreement with regard to the items specified in clauses (i), (ii), and (viii) of Annex A to that Agreement.

Second, the Secretary of Labor must certify to Congress that the country is taking or has taken steps to afford "internationally recognized worker rights" as specified in section 502(a)(4) of the Trade Act of 1974 (19 U.S.C. 2462(a)(4)) to its workers.

The President may waive the certification by the Secretary of Labor if the President determines that the waiver is in the national economic interest of the United States.

Section 3 amends section 601 by adding a new subsection (f). Section (f)(1) provides that the certification may be commenced by the USTR, by a country seeking certification, or by an interested party. This section also provides that the proceedings for certification may be commenced on or after January 1, 1987. Materials manufactured prior to July 1, 1988 may not be imported into the United States regardless of whether the jurisdiction has become "certified."

Section (f)(2) provides that the USTR or the Secretary of Labor may, after notifying Congress, withdraw a certification if the country ceases to meet the certification requirements. In the event that the certification is withdrawn, materials manufactured prior to the effective date of the withdrawal may be imported into and distributed in the United States. Also, any materials manufactured pursuant to a contract, agreement, understanding, or reasonable expectation relied upon prior to the effective date of the withdrawal may be imported into the United States for 24 months following the effective date. These provisions shall also apply to Canada in the event that it is not a "certified country" on January 1, 1989.

Section (f)(3) requires that notice of a certification or withdrawal of certification be published in the Federal Register with a 30-day period for public comment. A certification or withdrawal of certification shall not be effective until at least 30 days following publication of the notice.

Section 4 makes conforming changes in several subsections of section 601:

Section 4(a) amends section 601(b)(6) to provide that the 2,000 copy limitation will not apply to works manufactured in Canada prior to January 1, 1989, or a "certified country."

Section 4(b) amends section 601(c) which defines manufacture to make it clear that the provisions of that subsection apply to Canada until January 1, 1989, or a "certified country."

Section 4(c) amends section 601(d)(2) deleting the reference to Canada.

Section 4(d) amends section 601(d)(3) to make it clear that this section applies to Canada until January 1, 1989, or a "certified country".

IV. AGENCY VIEWS

THE SECRETARY OF COMMERCE,
Washington, DC, April 1, 1986.

Hon. STROM THURMOND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The manufacturing clause, which denies copyright protection to U.S. authors who have certain works printed outside the United States or Canada, should be allowed to expire on July 1 as scheduled. The Judiciary Committee may instead take action on two bills which would make the manufacturing clause a permanent part of our copyright law. S. 1938 would continue it in its present form. S. 1822 would expand its coverage. the President vetoed a simple extension four years ago and the Administration continues to oppose retention of this clause in any form.

The Administration opposes these bills for several reasons:

Continuing or expanding the clause will almost certainly result in significant retaliation against certain U.S. industries. The European Community has formally sought permission from the GATT contracting parties to suspend concessions should the clause be extended. The United Kingdom has indicated it may seek to have the European Community retaliate against our paper and tobacco industries as well as certain printed products if the clause is continued. The Canadian Government has promised to take retaliatory actions if the clause is made applicable to Canada.

Continuing the clause will undercut our efforts in the new round of trade talks to secure international agreement for bringing certain intellectual property issues under GATT auspices and for strengthening the Gatt dispute settlement mechanism. By ignoring a GATT Panel's 1984 finding that the clause violates our international obligations, we will be perceived as willing to abide by GATT procedures only when confident the outcome will be in our favor. Exempting the European Community member states from the clause, as we understand has been suggested, would be perceived by other nations as a willingness to ignore international obligations to countries not strong enough or organized enough to fight back.

Continuing the clause will made it harder for the United States to encourage other nations to enact strong intellectual property laws. Many of these nations are simply unable or unwilling to stand up to the domestic industries that have profited from the lack of protection accorded to patents, copyrights or trademarks. This hurts Americans trying to do business in those markets. The

manufacturing clause is an easy target for other nations to point to as an example of how the United States is itself willing to sacrifice principle to protect its own favored industries. Indeed, we have reason to believe that the continued application of the clause to Singapore may constitute a basis for its Government to decline to adhere to the Universal Copyright Convention, thereby undoing many years of painstaking work and negotiations by the United States.

Continuing the clause could seriously impede our efforts to adhere to the Berne Convention which prohibits conditioning a copyright on "formalities." The failure of the United States to adhere to the premier international copyright convention weakens the credibility of our claims to international leadership in intellectual property matters.

In short, retaining the existing clause would be inconsistent with our efforts to persuade other nations to disavow protectionism. It could undermine our international relations and invite retaliation. It could hinder our efforts to obtain international protection for our patented products, trademarked goods and copyrighted works and to encourage reliance on trade dispute settlement mechanisms. The printing industry is fully able to compete successfully at home and abroad. The Labor Department estimates that, although there may be job opportunities lost in the printing sector, it is doubtful whether there would be an actual net economy-wide employment loss associated with termination of the clause. Estimates by the U.S. International Trade Commission indicate that the expiration of the clause will result in very few printing job losses.

Accordingly, the Office of Management and Budget has asked me to advise the Committee that favorable action on these or any other bills to extend the life of this clause would not be in accord with the program of the President.

Sincerely,

MALCOLM BALDRIGE,
Secretary of Commerce.

THE SECRETARY OF STATE,
Washington, April 23, 1986.

Hon. STROM THURMOND,
Chairman, Committee on the Judiciary,
U.S. Senate.

DEAR MR. CHAIRMAN: I understand that your Committee will be considering two bills which would make the manufacturing clause a permanent provision in the U.S. Copyright Law. S. 1938 would extend the clause in its current form and S. 1822 would expand its coverage. The Administration is opposed to any extension of the manufacturing clause, and we believe it has long since outlived any usefulness it might have had in the past. Four years ago, the President vetoed a similar extension of the clause, and the Administration continues to oppose any version of the clause.

This matter has significant foreign policy implications since several nations intend to take measures in response to any extension of the manufacturing clause. The United Kingdom has indicated

that it will pursue the issue within the GATT and will seek retaliatory measures by the EC that could affect $500–$700 million dollars worth of U.S. exports. The U.S. exports which may be affected would include paper and tobacco products and machinery for production. For its part, the European Community has formally sought permission for the GATT Contracting Parties to suspend concessions. The Canadian Government plans to take a retaliatory action if the clause is extended and made applicable to Canada. The Government of Singapore has indicated that it intends to link their accession to an international copyright convention with the exemption of Singapore from the effect of the manufacturing clause.

The Administration is pursuing a policy to enhance the protection afforded intellectual property throughout the world. We will seek to improve such protection in multilateral fora, particularly the GATT, in addition to our present bilateral and multilateral efforts. When the United States has been found in violation of the GATT, as happened in 1984, and ignores the findings of the GATT, it is inconsistent for us to argue to other nations that the GATT presents an ideal dispute settling mechanism to help with the international enforcement of intellectual property protection.

The President has agreed that United States accession to the Berne Copyright Convention for the Protection of Literary and Artistic Works is one of the objectives of his Administration. The Advisory Committee on Trade Negotiations of the USTR—made up of members from the private sector—recently approved this action. If the manufacturing clause were a permanent part of U.S. law, it might make our legislation incompatible with the requirements of the Berne Convention.

Any limited gains the U.S. printing industry might obtain from an extension of this protectionist legislation would be more than offset by losses in other industries when the European Community and others retaliate against us and by the continued losses incurred as a result of the United States' inability to obtain the intellectual property protection afforded by the Berne Convention. I believe the time has come to let the manufacturing clause become a part of our history.

The Office of Management and Budget has advised from the standpoint of the Administration program that there is no objection to the submission of this report in that enactment of this or other legislation to extend the life of the manufacturing clause would not be in accord with the program of the President.

Sincerely yours,

GEORGE P. SHULTZ.

U.S. TRADE REPRESENTATIVE,
Washington, January 21, 1986.

Hon. CHARLES MCC. MATHIAS, Jr.,
U.S. Senate,
Washington, DC.

DEAR SENATOR MATHIAS: I appreciate the opportunity to give my views on the recently introduced bills to extend the "manufacturing clause" of the U.S. copyright law.

The Senate has two bills pending. S. 1938, which is identical to H.R. 3465, simply would eliminate the expiration date, thereby extending the clause, in its current form, indefinitely. S. 1822 would extend the clause indefinitely; expand the scope to include all copyrighted printed material, in the English language, by a U.S. national or domiciliary; eliminate the exceptions for importation for distribution of up to 2000 copies and for works the distribution rights to which have been transferred or licensed to a foreign party; eliminate the waiver for works "manufactured" in Canada; and eliminate the requirement that, to be a violation of the clause, imports must be by or with the authority of the copyright owner. S. 1822 also would authorize USTR to waive application of the clause to foreign countries by certifying that the country in question has no tariff or non-tariff trade barriers to imports of U.S. printed materials *and* that it provides adequate and effective protection to copyrights.

Extension of the clause in *any* form would be inconsistent with U.S. obligations under the General Agreement on Tariffs and Trade. In May of 1984, with the concurrence of the United States, the GATT Council adopted the report of the panel which had reviewed the E.C.'s complaint regarding the 1982 extension of the clause. The report, a copy of which is attached, concludes that the extension of the clause in 1982 created new legislation, unprotected by the exception for "existing legislation" provided in paragraph 1(b) of the Protocol of Provisional Application of the GATT. In other words, the 1982 extension isn't "grandfathered." (The United States had notified the GATT, in 1954, that the "manufacturing clause" was an import restraint, inconsistent with Article XI of GATT, but that, as "existing legislation", it was excepted from our obligations.)

The Council recommended that the United States bring its practice into conformance with its obligations within a reasonable time. If we again extend the clause, in whatever form for whatever time, we would be demonstrating a clear disregard for the international obligations of the United States, and particularly a dispute settlement process advocated by the United States in order to protect our economic interests. Such action could also undermine seriously several years of painstaking effort to institute a new round of trade negotiations to improve the rules governing the world trading system. Important decisions regarding the subjects to be discussed in any new round and the process to be followed will be made in the late spring and early fall of 1986. Those who wish to derail the new round could use reenactment of the manufacturing clause to question the credibility of the United States, particularly regarding our expressed desire to improve the dispute settlement process.

The existence of the manufacturing clause also weakens U.S. bilateral efforts to improve copyright and patent protection in foreign countries. Many developing countries are concerned, as we were in 1891 when we extended copyright protection to foreign works under the Chace Act, that improved copyright protection will result in injury to the domestic interests that have profited from the lack of protection. We resist compulsory licensing provisions or other limitations on rights designed to protect those domestic interests, but the other side often cites our own example and points out that we still retain the manufacturing clause although our printing industry is one of the most competitive in the world.

Some supporters have argued that S. 1822 would enable us to open other countries' markets to exports of U.S. printed materials by authorizing USTR to waive application of the clause for countries that eliminate their non-tariff and tariff barriers and protect U.S. works under copyright. The opposite more likely would occur. GATT signatories that believed they were injured by a further extension of the clause would be entitled to seek compensation. A GATT finding that the United States should provide compensation would be a certainty, given the panel decision, while waiver of the clause merely would allow one segment of a country's printing industry to try to compete in our market. Since we have no authority to provide additional concessions, we would have concessions given us by the other country taken away. The country involved very likely would choose to withdraw benefits that protect its important industries against import competition from the United States. Loss of those consessions could have a serious impact on U.S. industries uninvolved in printing.

The European Communities already has reminded us of the GATT decision regarding the "manufacturing clause" and asked for assurances that the Administration will reject any extension. When the E.C. complained in the GATT about the 1982 extension, it claimed that it was entitled to $250 million in compensation for the four year extension of the clause. Further extension for an indefinite period would lead to an even more dramatic claim. We would find few sympathetic ears if we argued that little harm would result, since, presumably, the clause wouldn't have been extended unless the United States itself believed that foreign printing industries would capture a significant portion of the U.S. market.

Supporters argue that S. 1822 is really aimed at Canadian barriers to exports of U.S. printed materials. First, I must point out that the duty free treatment Canada currently gives certain printed materials would cease because that treatment is scheduled to expire if the U.S. manufacturing clause is applied to printed materials manufactured in Canada. Second, USTR already is negotiating regarding some of the barriers complained of by the printers and has listed them in the Trade Estimates Report submitted to the Senate Finance Committee and the House Ways and Means Committee under section 303 of the Trade and Tariff Act of 1984.

Many of the practices of other countries complained of by the printers are trade barriers, and are the subject of trade discussions. Some practices (e.g., the British Royal patent on the King James

version of the Bible, censorship laws of most foreign countries, internal taxes, and price controls) are not trade barries. We may disapprove, but no evidence has been presented to show that the measures are applied in a discriminatory manner or as a disguised restriction on trade. Elimination of tariff and non-tariff barriers is best accomplished through multilateral and bilateral trade negotiations, or, where the barriers are unfair, through existing trade laws like section 301 of the Trade Act of 1974 or through the GATT. GATT action would be impossible so long as we ourselves maintain an import prohibition on printed materials that the GATT has found to be inconsistent with our obligations.

We defer to the Office of the Register of Copyrights and to the Patent and Trademark Office regarding the changes to the scope of the clause proposed in S. 1822, and the effect its extension would have on our ability to adhere to the Berne Convention.

The Office of Management and Budget advises that there is no objection to the submission of this report and that enactment of either bill would not be in accord with the President's program.

Sincerely,

CLAYTON YEUTTER.

V. CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 8 1986.

Hon. STROM THURMOND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed S. 1822, the Manufacture and Public Distribution of Certain Copyrighted Material Act, as ordered reported by the Senate Committee on the Judiciary, April 24, 1986.

S. 1822 would amend the Copyright Act of 1976 to extend the Act's manufacturing clause, as currently written, until July 1, 1988. The bill would then indefinitely extend the clause in a modified form that would allow for waivers from application of the clause under certain circumstances.

The current provisions of the manfacturing clause require that nondramatic literary works written in English by American authors be printed in the United States or Canada in order to receive full U.S. copyright protection. The manufacturing clause is currently set to expire on July 1, 1986. S. 1822 would eliminate the expiration date and extend the clause in its present form until July 1, 1988. After that date, the U.S. Trade Representative would be authorized to waive application of the clause to a foreign country by certifying that the country provides adequate and effective protection to copyrights and has no tariff or non-tariff trade barriers to imports of U.S. printed materials. Waivers from application of the manufacturing clause would generally be granted only after the Secretary of Labor also certifies that the country meets certain workers rights standards, although the President would be authorized to waive this requirement.

S. 1822 would have no significant direct affect on the federal budget. However, enactment of this bill could result in retaliatory trade actions against U.S. exports of printed materials and other goods. There could also be economic effects under current law from allowing the manufacturing clause to expire. In either case, there may be some secondary effects on the budget as a result of these economic factors, but there is no basis for estimating the net effect of such budgetary impacts.

Enactment of this bill would not affect the budgets of state or local governments.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

RUDOLPH G. PENNER,
Director.

VI. REGULATORY IMPACT STATEMENT

In compliance with paragraph 11(b), rule XXVI of the Standing Rules of the Senate, the Committee, after due consideration, concluded that this bill will not have any regulatory impact.

VII. ACTION BY THE COMMITTEE

On April 24, 1986, with a quorum present, by voice vote, the Committee on the Judiciary ordered the bill with an amendment in the nature of a substitute favorably reported.

The following Senators requested that they be recorded as voting in the negative: Senator Charles McC. Mathias,* Jr. (R-Md.), Senator John P. East (R-N.C.), and Senator Jeremiah A. Denton (R-Ala.).

VIII. CHANGES IN EXISTING LAW

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing laws proposed to be made by S. 1822 are shown as follows: Existing law to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman.

UNITED STATES CODE

* * * * * * *

TITLE 17: COPY RIGHTS

CHAPTER 6—MANUFACTURING REQUIREMENTS AND IMPORTATION

Sec.
601. Manufacture, importation, and public distribution of certain copies.

* * * * * * *

*By Proxy.

§ 601. Manufacture, importation, and public distribution of certain copies.

(a) [Prior to July 1, 1986, and except] *Except* as provided by subsection (b), the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic [1] literary material that is in the English language and is protected under this title is prohibited unless the portions consisting of such material have been manufactured in the United States [or Canada.] *or unless the portions consisting of such material have been—*

(1) manufactured in Canada prior to January 1, 1989; or

(2) manufactured in a certified country on or after July 1, 1988. For the purpose of this section, a "certified country" means a country, territory, possession, or other jurisdiction which—

(A) the United States Trade Representative has certified to the Congress—

(i) as providing adequate and effective means under its laws for United States nationals to secure, exercise, and enforce exclusive rights under copyright; and

(ii) either—

(I) as imposing no material nontariff barriers to trade in printed material; as imposing no tariff barriers to trade in printed material that is materially inconsistent with tariff bindings, if any, entered into by such jurisdiction with the United States; and as being an adherent to the Agreement on the Importation of Educational, Scientific and Cultural Material of 1950 (the Florence Agreement or, with respect to printed books, newspapers and periodicals, and catalogues of books and publications identified in items (i), (ii), and (viii) of Annex A to such Agreement, as imposing no tariff barrier materially inconsistent with the provisions of Article I of such Agreement if such jurisdiction is not an adherent to such Agreement; or

(II) as having in force a free trade agreement with the United States governing trade in printed material; and as being an adherent to the Agreement on the Importation of Educational, Scientific and Cultural Material of 1950 (the Florence Agreement) or, with respect to printed books, newspapers and periodicals, and catalogues of books and publications identified in items (i), (ii), and (viii) of Anex A to such Agreement, as imposing no tariff barrier materially inconsistent with the provisions of Article I of such Agreement if such jurisdiction is not an adherent to such Agreement and regardless of whether such tariff is permitted under the pertinent trade agreement; and

(B) the Secretary of Labor has certified to the Congress as taking or having taken steps to afford internationally recognized worker rights, as referred to in section 502(a)(4) of

the Trade Act of 1974 (19 U.S.C. 2462(a)(4)) to its workers, except that such certification by Secretary of Labor may be waived if the President determines that such waiver is in the national economic interest of the United States.

(b) The provisions of subsection (a) do not apply—

* * * * * * *

(6) where, in addition to copies imported under clauses (3) and (4) of this subsection, no more than two thousand copies of any one such work, which have not been manufactured in the United States [or Canada] *or, during the applicable period, Canada or a certified country are publicly distributed in the United States; or*

* * * * * * *

(c) The requirement of this section that copies be manufactured in the United States [or Canada] *or, during the applicable period, Canada or a certified country* is satisfied if—

(1) in the case where the copies are printed directly from type that has been set, or directly from plates made from such type, the setting of the type and the making of the plates have been performed in the United States [or Canada] *or, during the applicable period, Canada or a certified country; or*

(2) in the case where the making of plates by a lithographic or photoengraving process is a final or intermediate step preceding the printing of the copies, the making of the plates has been performed in the United States [or Canada] *or, during the applicable period, Canada or a certified country*; and

(3) in any case, the printing or other final process of producing multiple copies and any binding of the copies have been performed in the United States [or Canada] *or, during the applicable period, Canada or a certified country.*

(d) Importation or public distribution of copies in violation of this section does not invalidate protection for a work under this title. However, in any civil action or criminal proceeding for infringement of the exclusive rights to reproduce and distribute copies of the work, the infringer has a complete defense with respect to all of the nondramatic literary material comprised in the work and any other parts of the work in which the exclusive rights to reproduce and distribute copies are owned by the same person who owns such exclusive rights in the nondramatic literary material, if the infringer proves—

* * * * * * *

(2) that the infringing copies were manufactured in the United States [or Canada] in accordance with provisions of subsection (c); and

(3) that the infringement was commenced before the effective date of registration for an authorized edition of the work, the copies of which have been manufactured in the United States [or Canada], *Canada or a certified country* in accordance with the provisions of subsection (c).

* * * * * * *

(f)(1) The certification referred to in subsection (a) shall be commenced upon the initiative of the United States Trade Representative or upon petition to the United States Trade Representative by any jurisdiction or interested party. Such proceedings may be commenced on or after January 1, 1987, and final certification may be published at any time thereafter pursuant to the terms of this section: Provided, That no certification shall permit the importation, under clause (2) of subsection (a), of materials subject to this section manufactured prior to July 1, 1988.

(2) Any certification made pursuant to subsection (a) shall be withdrawn by notification to the Congress given by the United States Trade Representative if the United States Trade Representative shall find that the criteria of subsection (a)(2)(A) are no longer met, or by the Secretary of Labor if such Secretary finds that the criteria of subsection (a)(2)(B) are no longer met: Provided, however, That no such withdrawal, no expiration, termination, or other cancellation of any trade agreement referred to in subsection (a)(2)(A) and no other provision of this section shall prevent the importation or distribution of any copies manufactured prior to the effective date of such withdrawal or cancellation, or the importation or distribution of any copies manufactured following such effective date in a country referred to in subsection (a) pursuant to any contract, agreement, or understanding entered into, or reasonable expectation relied upon, prior to such effective date and imported during a period of 24 months following such date. The terms of the foregoing proviso shall apply equally to the importation and distribution on or after January 1, 1989 of copies manufactured in Canada, in the event that on such date Canada is not a certified country.

(3) Any proposed certification, or notification of withdrawal made pursuant to this section shall be published promptly in the Federal Register by the United States Trade Representative and opportunity for public comment shall be afforded to interested parties. For purposes of this section, interested parties shall not necessarily be limited to parties with a material interest in the certification or notification of withdrawal of a jurisdiction. No certification or notification of withdrawal shall become final until at least 30 days following publication of such notice in the Federal Register.

IX. MINORITY VIEWS OF MESSRS. MATHIAS, EAST, AND DENTON

As we consider S. 1822, a measure that seriously affects the rights of American authors, we should keep in mind the query advanced by one of our most celebrated poets, Robert Frost. He asked,

> Before I built a wall I'd ask to know
> What I was walling in or walling out,
> And to whom I was like to give offense.

Cloaked by U.S. copyright law is a protectionist trade provision known as the manufacturing clause. On July 1, 1986 this anachronistic provision is once again due to expire. S. 1822 as passed by the Committee on the Judiciary extends a version of the manufacturing clause in perpetuity. We oppose any extension of this provision because the manufacturing clause is bad for trade relations, bad for copyright, and of little good to American industry and its employees.

Extension of the clause runs contrary to our international trade obligations under the GATT, invites retaliation against our own industries from our trading partners, and undermines international copyright standards, while providing unneeded protection to a healthy American industry. The manufacturing clause walls American authors into isolation, walls American business out of the international trading system, and gives offense to those who should be our allies in both trade and copyright. It should be allowed to expire.

In its current form, the manufacturing clause protects the printing industry at the expense of U.S. authors, illustrators and publishers by making copyright protection for certain written works, mostly books, contingent on printing the work in the United States or Canada. While domestic manufacturing requirements were common early in our history to protect "infant" businesses, only the printing industry still receives this type of protection. No other country in the world enforces a domestic book manufacturing requirement, and it is an anomaly in our law. No such domestic manufacturing requirement exists in U.S. law for works of graphic art, musical compositions, dramatic works, sound recordings or motion pictures. U.S. inventors are not required to manufacture inventions here to obtain United States patent protection. Likewise, trademark holders may receive protection for their marks no matter where the goods that bear them are made.

The Committee-passed legislation is a hybrid of two bills. While the Committee-reported bill is in some ways an improvement on both its precursors, its ultimate effect would be a permanent extension of the manufacturing clause. As reported, S. 1822 extends current law for two more years, after which a country can be certified

as exempt from the requirements of the clause if it meets certain trade, labor and copyright standards. As such S. 1822 not only represents a new approach to copyright law but also to protectionism as well. Since the manufacturing clause restricts the copyright protection available to American authors and publishers, the certification process established by S. 1822 amounts to a threat that if other countries are unfair to an industry of ours, we will retaliate not against them but against our own citizens. We will hold American copyright owners hostage to the business practices of foreign countries.

Three issues are of paramount importance in any consideration of legislation extending the manufacturing clause. First, how will extension of the clause affect relations with our trading partners? Second, how does the clause affect efforts to strengthen respect for international copyright protection? And finally, what is the effect of the clause on U.S. jobs and the domestic printing industry?

The sponsors of S. 1822 argue that the clause can be used as a "bargaining chip" to extract favorable trade concessions from foreign countries. Contrary to these assertions, as the administration pointed out in its opposition to this bill, any further extension of the clause will likely invite retaliation, not concessions.

Extending the manufacturing clause would violate our obligations under the General Agreement on Tariffs and Trade (GATT), which for over fifty years has been instrumental in increasing trade by eliminating barriers, particularly nontariff trade barriers like the manufacturing clause. The GATT violation here is not a legal scholar's quibble; it is an accomplished fact, which not even the proponents of S. 1822 pretend to dispute. In 1984 the GATT contracting parties found that the 1982 extension of the manufacturing clause was a violation of the Agreement. Since this extension legislation was introduced, the European Community has formally sought permission from the GATT to retaliate. They have targeted for retaliation a wide range of U.S. industries that includes paper, paper and printing machinery, tobacco and tobacco machinery, chemicals, and textile machinery. Those who wish to gamble that the European Community will not ultimately retaliate against an extension of the manufacturing clause are putting the profitable exports of these industries at risk. Those are the real "bargaining chips" in this high-stakes poker game.

It may be, as some advocates of S. 1822 suggest, that the European Community, Japan, Canada, or other trading partners will easily win certification for exemption from the clause at the end of the two-year extension of the status quo. The cryptic legislative history on the standards to be applied by the U.S. Trade Representative adds little to this vague assertion. But in any event, these predictions miss the point. Our Government has obligated itself, by a treaty duly ratified, to an international trading regime that requires removal of the manufacturing clause. It is unwise to treat this legal obligation as a decision committed to the vagaries of an overtly political decision-making process, regardless of the outcome.

In addition to the immediate harm caused by turning the threat of retaliation into a reality, retention of the clause jeopardizes our long-term trading interests. If the United States extends the clause again, we demonstrate a clear disdain for our international trade

obligations, particularly the dispute settlement process that our country has worked hard to strengthen.

In response to this, the printing industry argues that the clause is the "only leverage" available to it for negotiating trade barriers affecting their exports. They claim that, unlike other industries, the printing industry has no access to other trade remedies because of international agreements, particularly the Florence Agreement. This claim is dubious at best. First, like any industry, the printing industry has a variety of trade remedies available to it under the Trade Act. If foreign countries maintain unfair trade practices, the President has the authority to restrict imports. If a domestic industry, including the printing industry, suffers unduly because of large import penetration, meaningful relief can be provided. The administration has shown that it can and will invoke these remedies when appropriate against Japan, the European Community, Korea or any other country, to help a variety of domestic industries. Second, when the United States joined the Florence Agreement we reserved the right to use certain trade measures should our domestic industries suffer. Finally, it is a little odd that the printing industry would point to one international agreement, the Florence Agreement, as a reason to undermine another, the GATT.

In addition to the prospects of trade retaliation, extension of the manufacturing clause will pose a substantial obstacle to efforts to improve protections for American intellectual property interests abroad. No initiative is more important in addressing the trade deficit, and in enhancing the international competitiveness of our dynamic export-oriented copyright-based industries, than the drive to promote respect for copyright, patents and trademarks worldwide. Extension of the manufacturing clause will subvert these efforts.

The administration testified that the clause undermines adequate and effective world-wide copyright standards. Specifically, the manufacturing clause is an impediment to U.S. adherence to the Berne Convention, the premier international copyright agreement. Hearings before the Judiciary Committee have demonstrated a public and private consensus in general support of U.S. adherence to the Berne Convention and the copyright standard it sets. Unless we join we cannot fully benefit from nor help shape the development of international copyright laws in ways that are vital to our long-term economic interests.

Apart from inhibiting U.S. participation in the Berne Convention, further extension of the manufacturing clause undermines our negotiating position when we try to encourage other nations, particularly along the Pacific Rim, to enact strong intellectual property laws. Some of these countries—Singapore, for example—have already suggested that if the clause is extended, they may backslide on the progress they have recently made. S. 1822 is perceived as setting a double standard, maintaining in our law a provision we would find unacceptable in the law of another country. Extension of the clause is a prescription for stagnation in these negotiations.

The printing industry and the sponsors of S. 1822 maintain that the clause provides an incentive to other countries to "voluntarily provide" copyright protection. Those most familiar with the territory—the negotiators and experts in government and the private

sector—tell us this assertion is just not so. The proponents also overlook the other incentives that are available. The 98th Congress passed the Trade and Investment Act of 1984 which conditioned the benefits extended under the generalized system of preferences (GSP) on adequate and effective protection of intellectual property. Since that time Taiwan, for example, has made progress in improving its copyright law. In addition, the administration is attempting to bring some intellectual property issues within the scope of the GATT disputes resolution procedures. This would improve enforcement of adherence to international norms. Enactment of S. 1822 will surely subvert those efforts.

The traditional justification for a bill such as S. 1822, despite the damage it would do to our international intellectual property and trade position, is the claim that elimination of the manufacturing clause would result in a loss of jobs in the U.S. printing industry. This fear is exaggerated. Our printing industry is the largest in the world. It is competitive in international markets. Moreover, over 90 percent of all printing work is commercial printing that is not even covered by the clause, nor affected by S. 1822. While opinions differ as to the impact that the expiration of the manufacturing clause would have on U.S. jobs, the most recent studies by the International Trade Commission and the Labor Department show that the impact would be small. In fact, it is widely recognized that the manufacturing clause has its greatest impact on books. Of the well over 1 million jobs in printing, only 44,000 are in book printing. A vote for the manufacturing clause will probably not protect many printing jobs; but it is very likely to jeopardize many American jobs in industries that are threatened by retaliation over this issue.

The manufacturing clause does not belong in the copyright law. This protectionist provision is inconsistent with our efforts to persuade other nations to lower trade barriers. It undermines our drive to enhance intellectual property standards worldwide. Its very presence in our law invites retaliation. Our answer to Frost's question should be the same as the poet's:

> Something there is that doesn't love a wall,
> That wants it down.

This wall should at long last be allowed to come down.

CHARLES MCC. MATHIAS, Jr.
JOHN P. EAST.
JEREMIAH DENTON.

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Calendar No. 656

99TH CONGRESS
2d Session

SENATE

REPORT
99-305

PATENT AND TRADEMARK OFFICE AUTHORIZATION

MAY 20 (legislative day, MAY 19), 1986.—Ordered to be printed

Mr. THURMOND, from the Committee on the Judiciary, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany H.R. 2434]

The Committee on the Judiciary, to which was referred the bill (H.R. 2434) relating to the Patent and Trademark Office authorization having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

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I. PURPOSE OF THE LEGISLATION

The purpose of H.R. 2434 is to authorize appropriations for the Patent and Trademark Office in the Department of Commerce for fiscal years 1986 through 1988. It also authorizes such amounts as may be necessary in each of the fiscal years 1986 through 1988 for

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adjustments in a salary, pay, retirement, and other employee benefits authorized by law. The bill specifies the types of fees charged, collected, and used by the Patent and Trademark Office to offset the agency's obligations and prohibits any fee increases during this authorization cycle beyond those needed to compensate for inflation. The Patent and Trademark Office would also be prohibited from charging fees for the use of public patent and trademark search rooms or libraries. In addition, the bill increases the Patent and Trademark Office reporting requirements and permits prior years' unobligated balances to remain available until expended.

II. HISTORY OF THE LEGISLATION

Two authorization bills were considered by the Subcommittee on Patents, Copyrights and Trademarks: S. 866, introduced at the request of the administration, and H.R. 2434, passed by the House. Both bills authorized the Patent and Trademark Office appropriations for fiscal years 1986, 1987, and 1988. In addition, both bills reduced patent fees established under 35 U.S.C. 41(a) and (b) by 50 percent for independent inventors, small businesses and nonprofit organizations. However, H.R. 2434 contained a larger authorization figure for fiscal year 1986 as well as restrictions on the use of user fee revenues and exchange agreements.

The Subcommittee on Patents, Copyrights, and Trademarks of the Senate Judiciary Committee held a hearing on both reauthorization bills on July 23, 1985. The subcommittee received testimony from The Honorable Carlos J. Moorhead, ranking minority member of the House Judiciary Committee, Subcommittee on Courts, Civil Liberties and the Administration of Justice; Donald J. Quigg, Acting Assistant Secretary of Commerce and Commissioner of Patents and Trademarks; The General Accounting Office (Warren G. Reed, Director of Information Management and Technology Division); Intellectual Property Owners, Inc. (The Honorable Donald W. Banner, President); the American Intellectual Property Law Association (Robert B. Benson, President); The United States Trademark Association (William A. Finkelstein, Executive Vice-President); and the Information Industry Association (Paul Zurkowski, President).

Additional written questions were submitted to all of the witnesses by the Chairman of the Subcommittee, Senator Charles McC. Mathias, Jr. In addition, Senator Patrick J. Leahy, ranking minority member of the subcommittee, submitted questions in writing to the Patent and Trademark Office. All witnesses submitted timely responses.

Without objection to the procedure, H.R. 2434 was polled out of the subcommittee with two amendments on February 7, 1986. The first amendment—making changes to sections 1(b), 3, and 6—was unanimously agreed to by the subcommittee. A second amendment—to section 5, on funding for automation—was agreed to by a majority vote of 5 to 2. On February 20, 1986, the Committee on the Judiciary, by voice vote and without objection, ordered the bill as amended by the subcommittee to be reported favorably to the full Senate.

III. STATEMENT

Increasingly, the vitality of the U.S. economy depends on protecting the tangible expressions of new and innovative ideas. Our patent laws help provide the incentives that, as Abraham Lincoln observed, add the fuel of interest to the fire of genius. More recently, the 1985 Report of the President's Commission on Industrial Competitiveness notes:

> When intellectual property rights are protected, innovators are able to recover the costs incurred in research, product development and market development. This cost recovery justifies the risks associated with development of new technologies and products today and is essential for stimulating the future research and development that is necessary to maintain America's competitive edge.

However, developing and administering the laws necessary to promote innovation and keep pace with changing technology is a difficult task.

Undeniably, an effective and efficient Patent Trademark Office is a necessary prerequisite for the proper administration of the patent and trademark systems. In "A Connecticut Yankee in King Arthur's Court," Mark Twain noted the importance of a patent system, ". . . a country without a patent office and good patent laws was just a crab, and couldn't travel any way but sideways or backways."

During the past few years, the Patent and Trademark Office (the Office) has made progress in improving the patent and trademark systems. The Office has reduced the pendency period for both patent and trademark applications. Further, improvements have been made in the patent and trademark examination process. The Office is continuing its efforts to closely monitor and improve the quality of both issued patents and registered trademarks.

Congress has assisted this effort by passing legislation assuring the strength of patents and trademarks, and by increasing the funding for improvements in the Office. In Public Law 96–517, enacted in 1980, Congress provided procedures for the reexamination of patents to consider certain new information bearing on patent validity.[1] The Court of Appeals for the Federal Circuit was established by Public Law 97–164 to provide a single appellate court for patent appeals from federal district courts.[2] In addition, Public Laws 96–517 and 97–247 provided additional funding for the Office by permitting the Office to administer and retain fees collected from patent applicants, trademark registrants, and other users of the Office's records.[3]

During hearings in the 99th Congress before the House and Senate Judiciary Committees, a number of concerns were raised regarding the Office's expenditures and funding. Although the issues are on either side of the Office's budget ledger, all of them revolve

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[1] An Act to Amend the Patent and Trademark Laws, Pub.L.No. 96–517, ss 302, 94STAT.3015(1980).

[2] Federal Court Improvements Act of 1982, Pub.L. No. 97–164, 96STAT.25(1982).

[3] An Act to Amend the Patent and Trademark Laws, Pub.L.No. 97–517, 94STAT.3017(1980). Patent and Trademark Office Appropriation Authorization, Pub.L.No. 97–247, 96STAT.317(1982).

around the need for increased effective congressional oversight. H.R. 2434 as reported by the Senate Judiciary Committee maintains the past objectives of increased fee funding and automating the Office while addressing the concerns that were raised about the Office's implementation of these goals.

1. Patent and Trademark Office Funding

No matter how Federal programs, projects, or activities are funded, Congress must maintain its traditional oversight responsibilities over the use of public funds. The Patent and Trademark Office receives funds not only from appropriations but also directly from user fees. As mentioned above, the authority for the administrative establishment of user fees comes from Public Law 96-517.

In subsequent legislation—Public Law 97-247—Congress increased fees, relying more on users to defray the cost of operating the Patent and Trademark Office.[4] As the House Judiciary Committee report on H.R. 2434 states, ". . . the Committee endorsed the premise that patent applicants and those seeking to register trademarks should bear a significant share of the cost of operating the Patent and Trademark Office by the payment of fees."[5] Fee income over the last 3 years has increased from $28.8 million in fiscal year 1982 to $107.3 million in fiscal year 1985. In fact, a majority of the agency's funding now comes from user fees, primarily patent application, issuance and maintenance fees and trademark application fees. Under current law, the Office reliance on user fees is projected to increase until the mid-1990s, when it is estimated that over 80 percent of the Office's overall operations will be user fee funded.[6]

Having both user fee income and appropriations to underwrite its activities places the Office in an unusual position. But Congress never envisioned that activities financed by user fees would be any more beyond the scrutiny of Congressional oversight than those activities that are paid for by appropriations. On the contrary, it is clear that the Office's authority to collect and spend user fee money does not remove these activities from Congressional oversight and control.

James Madison wrote in the Federalist 48 that "the legislative department alone has access to the pockets of the people." Both the authority to raise general revenue and the authority to allow the Office to set fees rests with Congress. If Congress is to carry out the responsibilities attending both of these exercises of its power, it must carefully review the effectiveness and efficiency of all agency activities no matter how they are funded. While it may be proper to restrict the funding of certain activities to appropriations, such restrictions cannot be justified solely by reference to the need to increase oversight. That reasoning implies that Congress has less concern over how the agency spends usr fee money. In the case of the Patent and Trademark Office, this would imply that most of

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[4] Patent and Trademark Office Appropriation Authorization, Pub. L. No. 97-247, 96 STAT. 317 (1982).

[5] H. Rept. No. 99-104, 99th Cong., 1st Sess. (1985) at 5, 6.

[6] H. Rept. No. 99-104, 99th Cong., 1st Sess. (1985) at 6.

the agency's activities are not subject to effective congressional review, which, as pointed out above, is simply not true.

During the hearing, several witnesses testified that unless the functions to which user fees may be devoted are strictly limited, pressure to increase fees will continue to build. While this concern may be legitimate, it does not explain where the line between appropriations and fees should be drawn. If only appropriated money is used for the Office's automation program, for example, it is likely that, given the Office's current level of appropriated funding, substantial reprogramming would be necessary. Some activities, such as certain management functions currently supported by appropriations, would have to be underwritten by fees so that appropriations could be used for automation. It is not self-evident why these Office activities are better suited than the automation project for user fee funding. Nor is it clear that the public would be better served by such reprogramming.

The concern over rising user fees is best addressed directly, by caps on fee increases, rather than indirectly, by restrictions on the uses to which fees can be put. Section 3 of the committee bill takes the direct approach, providing that fees will not rise faster than the Consumer Price Index. This restriction is not meant to imply that fees should necessarily rise as fast as the CPI. All fee increases should be clearly justified. The Committee believes that such factors as the actual unit costs for services and activities or any increases in unit costs which may come from planned program improvements ought to be determinative in fee adjustments. However, the Committee believes that the Office's public mandate is more important than cost recovery. When setting fees levels, care must be taken to ensure that fees do not discourage the filing of patent and trademark applications. In addition, special attention should be given to the fees of small businesses, non-profit organizations or independent inventors to ensure that user fee increases do not harm this group.

During the hearing several witnesses expressed a concern over the appropriateness of using fees to offset the costs of activities that benefit the public generally.[7] However, all activities funded by the Office, whether they are supported by appropriations or fees, provide a public benefit. The existence of a general public benefit does not automatically determine how a particular activity should be funded. Rather, it determines whether a fee is charged for that activity.

A specific question has arisen over whether a fee should be charged for the use of the patent and trademark search rooms and libraries at the Patent and Trademark Office. Like its House counterpart, the Committee has concluded that a fee should not be charged for these services. An underlying purpose of enacting patent and trademark laws is to disclose new technologies and to put the public on notice about the assertions of rights in trademarks. The broad dissemination of patent and trademark information is essential to this purpose. Much of the information published

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[7] See Hearing on Patent and Trademark Office Authorization before the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks, 99th Congress, 1st sess. (1985), at 284, 316, 317, 332, 333.

in patent documents can be found nowhere else. The availability of these records to researchers stimulates scientific inquiry and promotes innovation. Public access to the trademark search room and a searchable register of marks is necessary to give meaning to the constructive notice provisions of the Trademark Act and for the orderly adoption of trademarks by businesses.

The Committee believes that a proper user fee policy should look at the types of activities for which fees are to be charged and at what level each of the fees should be set. With request to the former, prior legislative enactments have delineated in great detail the Office activities for which fees can be charged. Fees were established for these activities, because while there is a public benefit in encouraging the use of patent and trademark laws, there is also a direct benefit conferred on the individual who is filing for or receiving a patent, registering a trademark, or using other Office services. The costs to the Office incurred by providing these services are offset by the fees charged.

Statutory patent fees are governed by 35 U.S.C. 41. Section 41(a) for example, covers patent filing and issue fees. In addition, Public Law 97-247 modified patent fees, requiring that:

> The overall objective . . . is to provide for increased user support for the Patent and Trademark Office and the costs associated with the actual processing of patent applications by fiscal year 1996. The fee schedule is designed to return to the government 100 percent of the actual costs.[8]

The authority for charging fees for the processing of trademark applications and services and materials related to trademarks is derived from section 31 of the Trademark Act of 1946 (15 U.S.C. 1113). Trademark fees also were modified by Public Laws 96-517 and 97-247, in which the Commissioner of Patents and Trademarks was given discretion to set fees for processing trademark registrations. The House report 97-542 states that the Committee, ". . . intends to exercise vigorous oversight with respect to the Commissioner to ensure that fees remain at a reasonable level and that trademark registerations are processed in an efficient and cost effective manner." [9] As part of that oversight, the Committee report recommended a specific fee schedule.

With respect to setting the fee level, this Committee recognizes that it is not in the public interest to discourage the use of patent and trademark laws by charging burdensome fees. The cost recovery schemes must always be balanced by the effect fee increases will have on the number of patent applications. The Committee notes that this concern is consistent with prior congressional actions. With respect to patents, Public Law 97-247 increased the fees to recover the costs of patent processing except for ". . . the fees for individuals, small businesses and nonprofit inventors," [10] which were reduced by half in order not to discourage the use of the patent system by these inventors.

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[8] H. Rept. No. 97-542, 97th Cong., 2d Sess. (1982) at 2.
[9] H. Rept. No. 97-542, 97th Cong., 2d Sess. (1982) at 3.
[10] H. Rep. No. 97-542, 97th Cong., 2d Sess. (1982) at 2.

Trademark fees have also been set with an eye toward encouraging registration. The report on Public Law 97-247 states, "It is expected that the Commissioner will set the fees in a way that the filing fee will be kept as low as possible to foster use of the Federal registration system. This may require that other fees for services or materials related to trademarks recover more than their actual estimated cost in order that the Commissioner achieve in the aggregate cost recovery for the entire trademark operation." [11] The Committee believes that encouragement of the use of the trademark system must temper the goal of recovering costs through the fee system. If trademark fees prove to affect trademark registrations adversely, fees, should be adjusted accordingly to minimize the adverse effect.

The Committee notes that this is only the beginning of the second authorization cycle during which fees collected by the Office have been directly available to it, rather than being deposited in the Treasury. The effect of administering fees in this manner is still unclear. At this juncture, Congress' oversight responsibilities for the collection and expenditure of these funds are particularly important, and must not be abridged.

In addition, the Committee received differing testimony regarding the effects of fees and fee increases. While the Patent and Trademark Office notes that both patent and trademark applications are increasing (including patent applications from small entities), testimony from the private sector indicates that there may be a decline in the patent applications from independent inventors as a result of the fee increases.[12] The Committee believes that the Congress needs more information on the amount of revenue being raised by each fee and how that money is being spent. In the case of trademarks, for example, Congress needs to be sure that trademark fees are going only to trademark activities as is required by statute. Also, additional information is needed on the effects of fees on total number of patent and trademark applications as well as the number of patent application by independent inventors, small businesses, and nonprofit organizations. The requirement for more information is reflected in section 3(c) of the Committee bill and is consistent with the type of information that the Department of Commerce recommended the Office provide in the Review of Patent and Trademark Automation, July 12, 1985, that was submitted for the Committee's record.

Finally, the Committee received testimony from the administration on the application of the 1959 Bureau of Budget (now the Office of Management and Budget) Circular No. A-25, entitled "User Fees." The administration cited this document as justification for its user fee policy, both for charging fees for certain activities and for determining the right fee levels. While executive documents like Circular No. A-25 may be generally instructive, the Office needs to provide more information to the Congress on its fee policy, and more detailed guidance on which, activities and what fee levels are consistent with the fee policy. Congress must evalu-

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[11] H. Rep. No. 97-542, 97th Cong., 2d Sess. (1982) at 8.

[12] See Hearing on Patent and Trademark Office Authorization before the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks, 99th Congress, 1st sess. (1985), at 296.

ate the fee policy to ensure that it complies with PTO's constitutional mandate, public obligations and statutory limitations. Two recent cases demonstrate this need by showing how fee policy was not properly applied.

Recommendations that include charging fees for use of the public search rooms, for example, are of great concern to Congress and need to be carefully evaluated with respect to any fee policy. Although the Office feels these services fall within the administration's fee policy because the benefits are an identifiable cost to the Office, the Commission in both Houses strongly disapprove of charging fees for them as reflected in section 4 of this bill.

In addition, the Committee is very concerned about the argument that the presence of "excess" fees justifies a reduction in Office appropriations. The reduction in appropriations for fiscal year 1986, justified in this manner, has led to program cuts that have reduced the quality for examinations and the availability of services. Reducing appropriations by using excess fees is not consistent with the Committee's understanding of the justification for, or proper use of, fees. At the same time, the Committee does not believe that the level of appropriations should be used in determining fee schedules; nor should the Office attempt to increase fees as a means of avoiding or diluting Congressional oversight. The Committee recognizes that any administration user fee policy goes beyond its application to this Office. Nevertheless, any attempt to apply a fee policy to this Office must be entirely consistent with congressional intent, applicable public law and its legislative history.

2. Oversight of Office Expenditures

Changes over the last several years have affected not only Office funding but also Office expenditures. In the past, the Committee received testimony that the Office charged with promoting technological change and innovation through the administration of patent and trademark laws was using a document filing system that was 100 years old. Complete file integrity and prompt handling of applications was nearly impossible. The administration testified that the Office's 26 million paper patent file documents, which are arranged in 115,000 technological categories, were stored in "shoe boxes." Given an annual workload that included well over 100,000 patent applications and over 60,000 trademark applications, this situation was unacceptable.

With Public Law 96–517 the Congress attempted to correct this situation, not only with increased funding but also by requiring the Office to submit a plan to automate the patent and trademark search files. Computerization of the patent and trademark records was intended to improve the usefulness, reliability and integrity of the search files. In addition, automation was intended to provide a substantial cost savings to the public by strengthening patent validity and increasing the quality of trademark records. In 1982, the Commissioner submitted the Automation Master Plan to Congress. A second edition of this plan, submitted February 28, 1986, estimated the total cost of automation at $808 million.

At the subcommittee hearing on July 23, 1985, the General Accounting Office testified that the PTO had already spent $9 million on trademark automation. While the GAO had already begun to review the Office's more extensive automation of the patent files, no conclusions had been reached.

The GAO's testimony on trademark automation was disturbing. The subcommittee was told that "PTO did not (1) thoroughly analyze or develop requirements analyses for its three automated trademark systems; (2) adequately assess the costs and benefits of trademark automation; (3) fully test its largest system before accepting it from a private contractor; and (4) properly manage its exchange agreements."[13]

In response to the GAO report on automation, the Department of Commerce conducted its own management review of the Office's entire automation effort and submitted it for the subcommittee's record. That review concluded that, "The main recommendation of this Management Review coincides with those made by the GAO in its April, 1985 report. While problems have been identified in this report and in the GAO study, it is important to note that the PTO has taken numerous corrective actions to date."[14]

The Committee is quite concerned about the Office's automation efforts. The problem outlined by the General Accounting Office, the Department of Commerce, and the private sector, must be addressed. The most urgent reason for enactment of H.R. 2434 is the need to strengthen Congressional oversight of the PTO's automation expenditures.

Section 5 of H.R. 2434 provides increased oversight by requiring periodic review of PTO's automation program by the Department of Commerce and the Office of Management and Budget as well as Congress. The revised Automation Master Plan outlines the key development stages in the automation effort. Section 5 provides that before implementing a key development stage, the PTO must report to the House and Senate Judiciary Committees.

Section 5 also contains a "report-and-wait" provision. Prior to the start of each of the key development stages, additional reports must be submitted to the appropriate committees. A new stage may not be implemented until 90 days after reporting. In the Committee's view, the 90-day period is essential if the General Accounting Offices and outsides private parties are to have adequate time to reiview the plan and provide their comments to the Committee.

On May 5, 1986, more than ten weeks after H.R. 2434 was ordered reported, the Committee received a letter from the Director of the Office of Management and Budget, expressing the view that the 90-day report-and-wait requirement was an "intrustion by the legislative branch into the management of an executive agency," and that it "could needlessly delay procurements that are necessary to improve the PTO's operational efficiency." The Committee disagrees. The Committee believes that the problems encountered

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[13] See Hearing on Patent and Trademark Office Authorization before the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks, 99th Congress, 1st sess. (1985), at 245. Also see GAO Report *Patent and Trademark Office Needs to Better Manage Automation of Its Trademark Operations*, April 19, 1985.

[14] See Hearing on Patent and Trademark Office Authorization before the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks, 99th Congress, 1st sess. (1985), at 45.

in the PTO automation effort justify the enhanced oversight procedure. PTO's trademark automation efforts have been extensively reviewed by agencies in both the legislative and executive branches (GAO and the Department of Commerce). These reviews, and the GAO study of patent automation that was completed after the Committee ordered this bill reported, underscore that enhanced oversight is an abolute necessity. The question before Congress is not whether to strenghten oversight, but how.

The approach adopted by the Committee allows the PTO greater flexibility in paying for automation than the flat on use of user fees approved by the House of Representatives. But the Committee's approach will not achieve the goal of enhanced oversight unless it is accompanied by an adequate merchanism for reviewing proposed major expenditures on automation before they are made.

The Committee is also not persuaded that the report-and-wait provision will lead to undue delay. If meaningful reports are submitted in a timely fashion, and if the automation program is being properly managed, any delay should be minimized. In any case, the costs of any slight delay would be greatly outweighed by the benefits that the provision offers: more information on automation for the legislative branch and interested parties in the private sector, and the opportunity to identify and suggest solutions to automation problems before they become costly and embarrassing mistakes.

Further, the Committee does not believe that a 90-day report-and-wait period before starting each key development stage imposes an onerous burden. The reviews of PTO's automation efforts conducted by the General Accounting Office and the Department of Commerce underscore the absolute necessity for enhanced oversight. Although both the Patent and Trademark Office and the Department of Commerce have taken steps to correct the problems highlighted in these reviews, the additional oversight provided by section 5 of this legislation should ensure continued progress.

In stressing the need for increased oversight of automation expenditures, the Committee echoes the views of its House counterpart. However, the House took a different approach than the Committee recommends. The House bill required that funding for automation—both patents and trademarks—come solely from appropriations, totally to the exclusion of fee revenues. Currently, patent automation is funded through a mix of fees and appropriations while trademark automation is financed principally by fees. In requiring that all automation be funded by appropriations, the House Judiciary Committee embraced "the theory that unless the Patent and Trademark Office has to justify fully the obtaining of appropriated monies for development of an automation plan, the automation activities will not receive adequate Congressional review."[15]

The Committee recognizes the appeal of this theory, but cannot wholly accept it. The Committee reiterates that there should be no distinction in the level of oversight between activities that are funded by user fees and activities funded by appropriations. No matter how the automation project is funded, if the goal is more effective oversight, the Committee favors taking the most direct

[15] H. Rept. No. 99-104, 99th Cong., 1st Sess. (1985) at 7.

path to that goal. The Committee rejects the implication that either congressional oversight and authority or attendant statutory procurement controls (section 111 of the Federal Property and Administrative Services Act of 1949) can be circumvented simply because fees are used to underwrite automation.

The rigid restrictions approved by the House are not only unnecessary to strengthen oversight, they may also have undesirable side effects. The Committee takes note of the unceasing and increasing pressure to hold down government spending of appropriation funds. This pressure has intensified dramatically since the House passed this legislation nearly 10 months ago. If, as the House bill requires, the use of fees is restricted and all automation programs must be funded through the appropriations process, substantial and arbitrary reprogramming of funds will be required. Some activities that are currently supported by appropriations would have to be funded by fees. The Committee is not convinced that other agency activities, now funded by appropriations, are necessarily more appropriate than the automation project for funding by fees. Nor should those other PTO activities be subject to any diminution of congressional oversight or authority, although under the House's analysis the reprogramming would clearly have that significance. The Committee believes that allowing the PTO to use user fees to pay for automation increases both the amount and flexibility of funding for this essential project, and enhances the Office's capacity to achieve its automation goals. The rigidity of the House-backed approach will set back that effort.

Testimony by the GAO and private parties raised additional concerns over the PTO's use of exchange agreements. Initially, the Office traded away part of the public's access to its automated trademark data base in exchange for certain automation related services. The General Accounting Office testified that the PTO did not place any value on the limitations imposed on public access to the automated trademark data base, nor did it abide by procurement regulations in acquiring these services. In contrast to the GAO, the PTO did not characterize the exchange agreements as procurements.

The Committee strongly disagrees with the Patent and Trademark Office's use of exchange agreements for two reasons. First, as mentioned above, regardless of how activities or services are obtained, the attendant procurement laws must be obeyed and congressional authority must not be diminished. Allowing the Office to use alternatives to appropriations, such as the use of fees or exchange agreements, does not mitigate the application of the law. Second, the Committee disagrees with the limitations that were placed on public access to the search files. The Committee believes members of the public should continue to have the same access to the search files as do the Office's patent and trademark examiners, whether the files are on paper or in electronic form. The only exception to this should be for confidential information relating to pending patent applications protected under the patent laws.

For reasons mentioned above, dissemination of information is an important part of the Office's mission. Automation is supposed to improve, not impede, access to patent and trademark data. The Office should not impose barriers to access to automated systems

by the public merely to obtain services. When the Office strikes that bargain, the public suffers. This does not mean, however, that fees cannot be charged for any enhanced automation services, such as remote electronic access. When those services become feasible, the PTO should consult with Congress to develop a proper application of fee policy.

Due to problems experienced with the Office's exchange agreements relating to automation, the Committee believes that PTO should be prohibited from entering into any new exchange agreements involving automation resources other than with other governments or international intergovernmental organizations. No additional items or services relating to automatic data processing resources may be obtained in this fashion during this authorization cycle. While the House bill requires an immediate end to exchange agreements involving acquisition of automated data processing resources, the Committee believes that additional time is necessary so that the Patent and Trademark Office can comply with all of the necessary steps in the procurement process. Accordingly, the bill as amended by the Committee provides that the existing automation exchange agreements must be ended by April 1, 1987. This does not apply to agreements with national patent offices and international intergovernmental organizations.

The GAO and private parties have pointed out many mistakes that have been made in the automation process so far. The challenge now is to learn from those mistakes; the danger is that those mistakes will divert attention from the progress that has been made toward automation, and resources from the further pursuit of that goal.

While full automation of the patent and trademark records will certainly enhance the quality of the Office's services, quality issues must not be neglected in the meantime. With respect to the public search rooms, the Committee believes that the paper search files cannot be allowed to deteriorate, and that the patent file subject matter classification system must be updated continually to keep pace with changing technology. Automation of the patent and trademark files will not be completed until the 1990's. The paper search file is absolutely necessary, at least until then, if the public is to have access to accurate records. In addition, the Committee is concerned about the fisal year 1985 cutbacks in subscriptions to legal, scientific and trade periodicals and pamphlets used by patent and trademark examiners. The Committee believes these publications are essential to the examination process. Finally, the Committee did not support the reduction in the fiscal year 1986 appropriation from the requested level of $101,631,000 to $84,739,000. That reduction in appropriations had the effect of precluding improvements in Office examination quality and services. In this era of fiscal stringency, the difficult and hard-to-measure task of maintaining quality in examination procedures deserves careful attention.

The Committee continues to support strongly the concept of automating the patent and trademark search files. The Committee expects and has received assurances from PTO that it will comply with the recommendations in the GAO report.

IV. SECTION-BY-SECTION ANALYSIS

Section 1—Authorization of Appropriations

Subsection (a) authorizes appropriations for the Patent and Trademark Office for the payment of salaries and necessary expenses of the Office. For fiscal year 1986, this section authorizes appropriations of $101,631,000; for fiscal year 1987, $110,400,000; and for fiscal year 1988, $111,900,000. The Committee agrees with the action of the House in H.R. 2434 in authorizing the Patent and Trademark Office in fiscal year 1986 at the same level as fiscal year 1985.

Subsection (a) also authorizes to be appropriated to the Patent and Trademark Office such additional amounts as may be necessary for each fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law.

Subsection (b) provides that funds made available by these appropriations shall be used to reduce by 50 percent the amount of fees to be paid under title 35, United States Code, section 41(a) or 41(b) by independent inventors and nonprofit organizations as defined in regulations established by the Commissioner of Patents and Trademarks, and by small business concerns as defined under section 3 of the Small Business Act (15 U.S.C. 632). One of the unfortunate consequences of the hiatus since this expiration of the PTO's authorization on October 1, 1985, has been the questions raised about the PTO's continued use of the lower fee rates for independent inventors, nonprofit organizations, and small businesses, without explicit legal authority to do so. This subsection dispels any doubts on this score by retroactively authorizing the fee subsidies.

Section 2—Appropriations and Fees Authorized To Be Carried Over

This section provides that fees collected pursuant to title 35, United States Code, and the Trademark Act of 1946, as amended, 15 U.S.C. 1051, et seq., and amounts appropriated under the authority of section 1 of the bill, may be carried over beyond the end of a fiscal year and remain available until expended. The total amount of resources for the Office in fiscal year 1986 (that is, the amount of monies appropriated pursuant to section 1 of the bill plus fees collected pursuant to the patent and trademark laws) are estimated to be $211.4 million; the total resources for fiscal year 1987 are estimated to be $234.9 million; and the total resources for fiscal year 1988 are estimated to be $237.3 million. This section is not intended, however, to encourage or justify accumulating and carrying over large amounts of excess fees. It is recognized, however, that planning a relatively small surplus would be prudent.

Although the Committee expects the Patent and Trademark Office to make the most accurate estimates possible of fee income that will be produced by a given level of user fees, the Committee recognizes that income often will differ from estimates.

If excess fee income accumulates, the excess fees should not be used as a justification to reduce public funding for the Office. The level of public funding for the Office should, be established based on the needs of the programs of the Office for which public funds

are required. The level of public support should not be adjusted merely because the Office receives fee income different from the amount estimated. The Office should, taking due account of the views of users, develop a policy for use of these funds to enhance the quality of its operations, and should keep the appropriate committees apprised of its efforts, abiding by the appropriate laws and legislative history.

Should the Patent and Trademark Office find that fee income from patent goods for services is higher than estimated, consideration should be given to reducing the level of fees. Section 3 of the bill, which prohibits increases in trademark and certain patent fees more than once during fiscal years 1986 through 1988, does not prohibit decreases in these fees whenever appropriate. Section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) will, however, preclude adjusting some trademark fees more than once every 3 years.

Alternatively, excess fees could be used for the purpose of improving the operations of the Patent and Trademark Office, although excess fees should be spent for such purposes only after consultation with appropriate committee of the Congress.

Improvements for which excess fees might usefully be spent include improvements in the quality of examination of trademark and patent applications. For example, funds might properly be devoted to educational programs for patent and trademark examiners, including field trips; a program to improve the integrity in the search files as an interim measure until the file can be automated; additional reference materials for examiners such as scientific, trade and legal periodicals; and additional staff to eliminate backlogs at the Board of Patent Appeals and Interferences and at the Trademark Trial and Appeal Board. The Committee does not wish to imply that these or other needs of the Office must await excess fees; these and similar needs also should be addressed in annual budget requests prepared by the Patent and Trademark Office. To the extent that the annual budget is inadequate to meet the needs, however, excess fee income is an additional source of funding which might be used to help achieve first class operations in the Office.

When fee income falls short of estimates, the Committee believes the quality of the Office's services should not be out back. Shortfalls in fee income should be covered by allowing backlogs of patent and trademark applications to rise temporarily, or by allowing requests for non-essential services to go unfilled.

Section 3—Increases of Trademark and Certain Patent Fees Prohibited

Section 3 prohibits the Commissioner of Patents and Trademarks, during the fiscal years 1986, 1987 and 1988, from increasing trademark fees and certain patent fees except to adjust for changes in the Consumer Price Index limitation under title 35 of the U.S. Code. Section 3(c) requires additional information on user fees, so that Congress will have a better idea of where fees are coming from and where they are spent.

Section 3(a) prevents the Commissioner from increasing fees established under section 31 of the Trademark Act of 1946 (15 U.S.C.

1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor. Under current law (section 31 of the Trademark Act of 1946), fees for the filing or processing of an application for the registration of a trademark or other mark or for the renewal or assignment of a trademark or other mark will be adjusted no more than once every 3 years.

Section 3(b) further prohibits the Commissioner from increasing patent fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index as determined by the Secretary of Labor. Fees established under subsection 41(d) are fees for all processing services or materials related to patents not covered in subsections 41(a) and 41(b) of title 35. Fees under subsection 41(a) and 41(b) are already subject to the Consumer Price Index limitation enacted as a part of Public Law 97-247.

In limiting fee adjustments to fluctuations in the Consumer Price Index, the Committee emphasizes that this is an upward limit and that fees should not be increased by this amount every 3 years as a matter of course; every fee change must be clearly justified. Factors to be considered by the PTO should include: (1) the potential effects of specific fees on applicants and other users of the patent and trademark system; (2) the actual unit costs for each service or activity; and (3) any increases in unit costs which may come from planned program improvements for better service and quality. In addition, public comments on proposed fee changes must be sought and reflected whenever adjustments are found necessary.

The phrase "in the aggregate," as used in section 3(a) and (b), applies to the total amount of revenue. Its inclusion offers the PTO the flexibility to change some trademark fees (or some patent fees to which this section applies) more or less than others so long as the total increase in the amount of fee revenues that are collected does not exceed the Consumer Price Index limitation. The Committee reiterates its concerns that trademark fee schedules, and those patent fee schedules described in section 3(b), be set in such a way so as to encourage use.

Finally, the Committee is currently not aware of any new types of processing, materials or services that require fees. Once fees for services or materials are established under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) or under 35 U.S.C. 41(d) during fiscal years 1986 through 1988, the Commissioner is precluded from establishing additional fees for those services or materials. However, the Commissioner is not precluded from charging a new fee for a new service or material or from charging a different fee where a measurable change in a service or material, such as in promptness or quality, is offered. Any additional fees ought to be clearly justified.

The intent of section 3(c) is to provide greater oversight over the Office's use of user fees. The use of user fees as a major source of agency funding is relatively new, but this source of revenue will be increasingly important in years to come. A large percentage of the PTO's patent activities and essentially all of its trademark-related

expenses have been offset by fee income since the PTO was last authorized. More information is necessary to see if user fees are being spent wisely. The Committee needs to know that the PTO is conducting its affairs in the most efficient and cost-effective manner and that the financial and program assumptions being made at the PTO are in accord with sound public policy. If Congress is to maintain its traditional responsibility of reviewing and approving agency activities, it requires more complete budget information on user fee collections, and on the specific uses to which those fees are put.

In requiring these reports the Committee notes that the Commerce Department has found problems with the PTO's financial systems (see U.S. Department of Commerce "Review of Patent and Trademark Automation," July 12, 1985). Correcting these problems and providing both the Committee and the affected outside private parties with a fuller understanding of its financial condition must be a high priority for the PTO. The importance of meeting these objectives goes beyond the achievement of sound management practices and the creation of a more cooperative relationship with the public it serves. It extends to the viability of the user fee concept and whether it can be successfully applied.

The Committee wants to ensure that all fees charged are equitable, and reflect the purposes and intent of the patent and trademark laws. In addition, the Committee expects the Office to provide detailed guidance on its overall user fee policy. The Committee wants to ensure that appropriate fees are charged for appropriate activities, and that appropriations are not reduced because of excess fees.

Many concerns have been expressed about the effectiveness of the patent and trademark system and its ability to fulfill its public purpose and offer first-rate services to the users of the system. The public should have free and ready access to the scientific, technological, and other information contained in the Office's publications and public records. The users of the system, on the other hand, are entitled to have strong and certain patents promptly granted, to have trademarks promptly registered, and to have other services, all at a reasonable cost. To address these concerns, the Committee requests that the Patent and Trademark Office review the options available for improving the efficiency of the system to be able to better serve the public in general and to offer first-rate services to the users of the system. The review should be summarized in a report to Congress to be submitted within 1 year from the effective date of the authorizing legislation.

SECTION 4

Under section 4 of the bill, the Commissioner of Patents and Trademarks may not impose a fee for use of the patent and trademark search rooms or libraries. The costs of such rooms and libraries shall come from amounts appropriated by Congress.

The Committee strongly supports the policy of not charging a fee for use of public search rooms or libraries. The Committee believes that the public search rooms and libraries confer a benefit to the public that is an essential part of the Office's purpose. This benefit

outweights individuals user costs to the Office. An underlying purpose for maintaining a patent and trademark system is the dissemination of information to the public at large. The broader the dissemination, the more the public benefits in the form of increased innovation and reduced legal costs. The search rooms and libraries at the Patent and Trademark Office are essential to that purpose.

Currently, the public has access only to the paper search files of the PTO. Many of the improvements obtained through trademanrk automation could be made available to the public immediately while computerized patent records will not be fully available to the public for at least another two and half years. The Office should give some priority to completing automation of its public search files and informing Congress when these services can be made available to the general public. The Committee is aware that the restrictions placed on using fees to fund the search rooms will require either additional appropriations or reprogramming appropriations from other activities to the PTO public search rooms. If these options are not satisfactory, Congress could authorize the PTO to make services in the search room available without direct charge to the actual users by having the costs of access to automated records reflected in other fees charged for patent and trademark services. However, this suggestion can only be implemented with congressional approval.

Finally, section 4 prohibits imposing fees for access to records only at the search rooms and libraries located at the Patent and Trademark Office. The Committee did not fully examine the question of whether user fees should be charged if Patent and Trademark Office records are available for remote electronic access. The Office will not have the capability for some years to make its records available at any off-site locations.

The Committee urges the Office to proceed carefully in formulating a policy on charging user fees for off-site access to records if a decision is made in the future to offer this service. While user fees may well be justified in these circumstances, interested users of Patent and Trademark Office services should have a full opportunity to provide comments on any such proposal. Benefits accuring to both the public at large and to identifiable users should be taken into account in determining any such policy. The Patent and Trademark Office should also consider whether this service could best be accomplished by the private sector.

Section 5

In response to the problems experienced in automating the Patent and Trademark Office, section 5 provides increased oversight of automation expenditures by requiring review by the Department of Commerce and the Office of Management and Budget, as well as Congress. Basically, this section requires a formal review before implementing each of the key development stages in the Office's Automation Master Plan.

After Executive Branch review is completed, the automation master plan is presented to the House and Senate Judiciary Committees. This plan outlines the key development stages in the Of-

fice's automation project. The Committee expects that at a minimum the following eight stages of the plan as well as two additional items will be reported:

(1) Approval of limited deployment of the automated patent system (APS) full text search.—This involves the use of text searching software licensed from Chemical Abstract Service (CAS). Approval would be based on a positive evaluation of the existing capabilities of the software.

(2) Extended deployment of full text search.—Approval would be based on positive test results of the enhancements to the existing CAS searching software.

(3) Deployment of full electronic search with APS clusters throughout the Patent and Trademark Office.—This involves approval of the installation of the patent searching terminals for access by all patent examiners. Approval would be based on the positive evaluation of the terminals and software tested in the first cluster located in Patent Examining Group 220.

(4) Deployment of the application file maintenance capability.—This involves approving the maintaining of patent applications in electronic form. The approval of this stage would be based on a positive indication that the system can accomodate these records and on positive results from using electronic records in Group 220.

(5) Approval to deploy APS to patent public search room.—This includes public access to the full electronic patent text searching system. Because of the restrictions on the use of fees in section 4, actual deployment of the system for public use is dependent on obtaining additional appropriations, reprogramming appropriations or Congressional authorization to allow the automation to be funded by user fees from other services provided by the Office.

(6) On-going patent data capture deployment plan.—This involves approving the systems integration plan for on-going data capture and proceeding with the implementation of the plan.

(7) Automated trademark system (ATS) deployment.—The approval to deploy for operational use occurs when the integrated computer network supporting all trademark operations and other current systems is installed and successfully tested.

(8) Deployment of on-going data capture operations.—This decision entails approval of the competitive procurement awards to replace the Office's exchange agreements (see section 6 of this bill).

(9) Deployment of the automated trademark search system to the public search room and library.—As with public access to the automated patent searching facilities, deployment is dependent on funding. The Committee believes that public access to the automated records is important. While the Committee understands the funding dilemma, the Committee wants to know when these automated services could be made publicly available. Further, the Committee was informed that public access to the automated trademarks records should be possible during the current authorization cycle.

(10) Decision—Elimination of the patent and trademark paper search files.—The paper search files will be kept current and their integrity maintained until proper approval for elimination is received. Approval to eliminate the public patent and trademark paper search files would be based on successful implementation of

APS and ATS. In addition, the Office will hold public hearings on elimination of the public paper files. Disposal of examiner search files would not be until implementation of APS and ATS; even then, the U.S. patent file might be stored at a remote location.

Ninety days prior to the start of each of the above key deployment decisions, a report detailing the cost and benefit analysis as well as the method of financing for that key deployment stage must be presented to the appropriate committees. Any additional information that the appropriate committees require shall be requested by the committee prior to the submission of the report. During the 90-day "report-and-wait" period no funds for implementing that key deployment decision may be obligated. It is expected that during this 90-day period the committees will solicit the opinions of the General Accounting Office and outside private parties on that automation stage.

Section 6—Use of Exchange Agreements Relating to Automatic Data Processing Resources Is Prohibited

Section 6 limits the authority given in section 6(a) of title 35, United States Code, to the Commissioner of Patents and Trademarks to enter into exchange agreements involving automatic data processing resources (including hardware, software, and related services, and machine readable data). The section prohibits the Commissioner from entering into new exchange agreements for such resources during fiscal year 1986, 1987, and 1988 and requires that existing agreements involving such resources be terminated by April 1, 1987.

This section shall not apply to any agreement with a foreign government or an international intergovernmental organization relating to data for automation programs.

This section is derived from GAO's conclusion that the Patent and Trademark Office has attempted to avoid procurement laws through the use of exchange agreements to develop an automation system for trademark records. In scope, however, section 6 is broadly written so as to apply to patent records.

The Committee recognized that the Patent and Trademark Office will need to make arrangements to obtain the automatic data processing resources currently obtained under existing exchange arrangements and has therefore given the Office a grace period in which to terminate the existing arrangements.

The Committee intends that any method chosen to terminate the trademark exchange agreements will fully comply with all applicable procurement laws and regulations. The Committee believes that the costs of the termination and obtaining of the necessary trademark data bases should have come from the additional $16.9 million in appropriations authorized by section 1. If this additional appropriation is not provided, the Commissioner may draw upon excess trademark user fees for this purpose.

V. AMENDMENTS

Amendment 1

On page 2, line 6, strike out "(1)" after "subsection (a)".

On page 2, line 7, after "paid" insert the following: on or after October 1, 1985,

On page 2, line 19, after "SEC. 3." insert "OVERSIGHT AND".

On page 2, line 20, strike out "PROHIBITED".

On page 3, line 9, strike out "as described in section 41(f) of such title" and insert in lieu thereof the following: "which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor".

On page 3, beginning on line 12 insert the following new subsection:

"(c) REPORT TO CONGRESS.—The Commissioner of the Patent and Trademark Office shall, at the time of the President's annual budget submission to the Congress, provide the Committees on the Judiciary of the Senate and the House of Representatives a list of patent and fee collections; a list of activities supported by patent and fee collections; a list of activities supported by patent fee expenditures, trademark fee expenditures, and appropriations; significant planning assumptions including out-year funding estimates, and any proposed disposition of surplus fees as well as any other information the Committees deem necessary."

On page 4, line 6 after "not" insert the following: "enter into new agreements for the"

On page 4, line 7 after "exchange" insert "of".

On page 4, line 11 after "1988" insert the following:

"; nor continue existing agreements for the exchange of such items or services after April 1, 1987."

On page 4, line 13 after "or with" strike out "a bilateral or" and insert in lieu thereof "an".

AMENDMENT 2

On page 3, beginning on line 18, strike out Section 5 and insert in lieu thereof the following new Section 5:

"CONGRESSIONAL REVIEW OF PROPOSED PURCHASE OF AUTOMATED DATA PROCESSING SYSTEMS

"(a)(1) SUBMISSION OF AUTOMATION PLAN.—The Commissioner of Patents and Trademarks shall submit to the Committees on the Judiciary of the Senate and the House of Representatives the revised master automation plan (including a detailed cost benefit analysis), approved by the Secretarty of Commerce and the Director of the Office of Management and Budget, by February 28, 1986. Such revised plan shall specify the key deployment decision to be made in implementing the plan, as well as such other information as the appropriate Committees may deem necessary.

"(2) REPORT BY COMMISSIONER.—The Commissioner shall report to the Committees on the Judiciary of the Senate and the House of Representatives, at least 90 calendar days in advance of the date of implementation of each key deployment decision provided for the revised master automation plan. Each pre-deployment decision shall be approved by the Department of Commerce's designated Senior Official for Information Resources Management prior to submission. Reports of such decisions shall include the cost and method of financing the deployment decision proposed to be imple-

mented including, where appropriate, a comparison with the cost benefit analysis contained in the revised automation master plan, as well as such other information as the committees may consider necessary to carry out such oversight authority.

"(b) PROHIBITIONS ON NEW OBLIGATIONS.—The Patent and Trademark Office may not enter into any new contract nor obligate any funds to implement a key deployment decision involving automated data processing systems as specified in subsection (a) prior to the expiration of the 90 calendar days following the submission of each of the applicable reports required in such subsection."

VI. PURPOSE OF AMENDMENTS

AMENDMENT 1

The amendment changes the bill in section 1 to provide that monies appropriated under all of subsection (a) of section 1 shall be used to reduce fees for independent inventors, nonprofit organizations and small businesses.

It makes clear that in section 1 fee subsidies for independent inventors, non-profit organizations and small businesses continue after October 1, 1985.

It changes the title of section 3 to show that the section has been expanded to include oversight of trademark and certain patent fees.

It specifies in section 3(b) that patent fees may not rise faster than the Consumer Price Index.

It changes the title of section 3 to reflect that increases in trademark and certain patent fees are not actually prohibited.

By requiring a detailed annual report in section 3(c) on the source and use of fees collected by the PTO, the amendment makes clear that the Congress has oversight responsibilities over activities funded by fee income. Congress' oversight responsibilities are not limited solely to activities funded by appropriations.

It changes the bill in section 6 by modifying the procedure for ending exchange agreements. This includes making clear that the PTO is prohibited from entering into new exchange agreements. In addition changes are made that remove the requirement that the PTO end its exchange agreements immediately. This gives the PTO time to comply with all the necessary steps in the procurement process. Finally, this amendment makes clear that section 6 does not apply to agreements with foreign patent offices or international intergovernmental organizations.

AMENDMENT 2

This amendment changes the bill by removing the restriction on using fee income to pay for automation and creating a detailed procedure for congressional review of PTO automation expenditures. Allowing PTO to use fee income for automation expenditures gives it greater flexibility in paying for automation. At the same time, the 90-day report-and-wait period before each key deployment stage strengthens congressional oversight of the PTO's automation-expenditures. The 90-day period ensures the Congress has sufficient time to carry out its oversight responsibilities and examine

PTO's progress in properly implementing the recommendations outlined in the GAO and Department of Commerce reports on automation.

VII. AGENCY VIEWS

On May 5, 1986, the Committee received the following letter from the Office of Management and Budget:

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, May 5, 1986.

Hon. STROM THURMOND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR STROM: I am writing to advise you of the Administration's position on H.R. 2434, which in part authorizes appropriations for fiscal years 1986–1988 for the Patent and Trademark Office (PTO) in the Department of Commerce. The Administration opposed H.R. 2434 when it was considered by the House on June 24, 1985. A Statement of Administration Policy on H.R. 2434 as sent to the House at that time is enclosed.

The Administration continues to oppose the provisions in H.R. 2434 that do not concern the authorization of appropriations, and support appropriation authorizations of $109,632,000 for fiscal year 1987 and such sums as may be necessary for fiscal year 1988.

We understand the Committee has adopted an amendment to require that automated data processing (ADP) procurement actions by the PTO be subject to a ninety-day report and wait requirement. This requirement would be in lieu of the prohibition in H.R. 2434 on the use of patent and trademark fees for procurement of ADP equipment. Under the requirement, the PTO's automation implementation and procurement decisions would be subject to a ninety-day review. The Administration strongly object to this intrusion by the Legislative branch into the management of an Executive agency. Moreover, this provision could needlessly delay procurements that are necessary to improve the PTO's operational efficiency. We believe that Congressional authorization, appropriation, and oversight hearings afford the Congress an ample opportunity to carry out its responsibilities.

Sincerely yours,

JAMES C. MILLER III,
Director.

See page 9 ante.

VIII. COST ESTIMATE

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 6, 1986.

Hon. STROM THURMOND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate for H.R. 2434, a bill to authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,
Sincerely,

RUDOLPH G. PENNER, *Director.*

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: H.R. 2434.

2. Bill title: A bill to authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes.

3. Bill status: As ordered reported by the Senate Committee on the Judiciary, February 20, 1986.

4. Bill purpose: H.R. 2434 authorizes the appropriation of $101.6 million in fiscal year 1986, $110.4 million in 1987, and $111.9 million in 1988 to carry out the activities of the Patent and Trademark Office (PTO). It also authorizes such amounts as may be necessary in each of the fiscal years 1986 through 1988 for adjustments in salary, pay, retirement, and other employee benefits authorized by law. The bill specifies the type and use of fees charged, collected, and used by the PTO to offset the agency's obligations and prohibits any fee increase during fiscal years 1986–1988 beyond those needed to compensate for inflation. The PTO would also be prohibited from charging fees for the use of public patent or trademark search rooms or libraries. In addition, the bill increases PTO reporting requirements and authorizes the PTO to use prior years' unobligated balances, to remain available until expended.

Fiscal year 1986 appropriations to date for the PTO are $81.8 million after the reduction required by the Balanced Budget and Emergency Deficit Control Act of 1985. The President is requesting an appropriation of $109.6 million in 1987.

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990	1991
Authorization level:						
Specified (function 370)	[1] 19.8	110.4	111.9			
Estimated (function 920)		3.0	5.3			
Total	19.8	113.4	117.2			

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990	1991
Estimated outlays:						
Specified (function 370)	14.5	86.0	111.5	30.2		
Estimated (function 920)		2.7	5.0	.5		
Total	14.5	88.7	116.5	30.7		

[1] Since funds have already been appropriated for the PTO for fiscal year 1986, this estimate only includes the increase in 1986 appropriations that would be authorized by the bill.

H.R. 2334 would also allow the PTO to collect fees for processing patents and trademarks and for other purposes, and to use these fees, in addition to appropriations, to carry out the activities of the agency. Assuming the amounts authorized in the bill are appropriated, the maximum program levels for the PTO would be about $250 million in 1986, $230 million in 1987, and $240 million in 1988. CBO estimates that fee collections would be in the range of $110 million to $150 million in each of fiscal years 1986 through 1988.

The costs of this bill within budget function 370.

Basis of Estimate: For purposes of this estimate, only the increase in fiscal year 1986 appropriations above the amount already appropriated has been included. It was assumed that the full amounts authorized in the bill for fiscal years 1987 and 1988 would be appropriated prior to the beginning of each fiscal year. In addition, pay and other benefit increases of approximately $3 million in 1987 and $5 million in 1988 were estimated based on the assumptions underlying CBO's 1987 baseline. Outlays reflect historical spending patterns of the Patent and Trademark Office.

6. Estimated cost to State and local governments: None.

7. Estimate comparison: None.

8. Previous CBO estimate: On June 14, 1985, the Congressional Budget Office prepared a cost estimate for H.R. 2434, as reported by the House Committee on the Judiciary, May 15, 1985. The authorization levels specified in that version of H.R. 2434 are identical to the levels in this estimate, although the kinds and use of fees charged by PTO are somewhat different.

9. Estimate prepared by: Theresa A. Gullo.

10. Estimate approved by: C.G. Nuckols (for James L. Blum, Assistant Director for Budget Analysis).

IX. REGULATORY IMPACT STATEMENT

In compliance with paragraph 11(b), Rule XXVI of the Standing Rules of the Senate, the Committee has concluded that no significant additional regulatory impact would be incurred in carrying out the provisions of this legislation. After due consideration, the Committee concluded that the changes in existing law contained in the bill will not increase or diminish any present regulatory responsibilities of the U.S. Department of Commerce or any other department or agency affected by the legislation.

X. CHANGES IN EXISTING LAW & THE COMMITTEE REPORTED BILL

H.R. 2434 makes no changes in the U.S. Code. For convenience, the text of H.R. 2434 as amended by the Senate Judiciary Committee follows:

AN ACT To authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. AUTHORIZATION OF APPROPRIATIONS.

(a) PURPOSES AND AMOUNTS.—There are authorized to be appropriated to the Patent and Trademark Office—

(1) for salaries and necessary expenses, $101,631,000 for fiscal year 1986, $110,400,000 for fiscal year 1987, and $111,900,000 for fiscal year 1988; and

(2) such additional amounts as may be necessary for each such fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law.

(b) REDUCTION OF PATENT FEES.—Amounts appropriated under subsection (a) shall be used to reduce by 50 percent each fee paid on or after October 1, 1985, under section 41(a) or 41(b) of title 35, United States Code, by—

(1) an independent inventor or nonprofit organization as defined in regulations prescribed by the Commissioner of Patents and Trademarks, or

(2) a small business concern as defined under section 3 of the Small Business Act (15 U.S.C. 632).

SEC. 2. APPROPRIATIONS AUTHORIZED TO BE CARRIED OVER.

Amounts appropriated under this Act and such fees as may be collected under title 35, United States Code, and the Trademark Act of 1946 (15 U.S.C. 1051 and following) may remain available until expended.

SEC. 3. OVERSIGHT AND INCREASES OF TRADEMARK AND CERTAIN PATENT FEES.

(a) TRADEMARK FEES.—The Commissioner of Patents and Trademarks may not, during fiscal years 1986, 1987, and 1988, increase fees established under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(b) PATENT FEES.—The Commissioner of Patents and Trademarks may not, during fiscal years 1986, 1987, and 1988, increase fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(c) REPORT TO CONGRESS.—The Commissioner of the Patent and Trademark Office shall, at the time of the President's annual budget submission to the to the Congress, provide the Committees on the Judiciary of the Senate and the House of Representatives a list of patent and fee collections; a list of activities supported by patent fee expenditures, trademark fee expenditures, and appropriations; significant planning assumptions including out-year funding estimates, and any proposed disposition of surplus fees as well as any other information the Committees deem necessary.

SEC. 4. FEES FOR USE OF SEARCH ROOMS AND LIBRARIES PROHIBITED.

The Commissioner of Patents and Trademark may not impose a fee for use of public patent or trademark search rooms and libraries. The costs of such rooms and libraries shall come from amounts appropriated by Congress.

SEC. 5. CONGRESSIONAL REVIEW OF PROPOSED PURCHASE OF AUTOMATED DATA PROCESSING SYSTEMS.

(a)(1) SUBMISSION OF AUTOMATION PLAN.—The Commissioner of Patents and Trademarks shall submit to the Committees on the Judiciary of the Senate and the House of Representatives the revised master automation plan (including a detailed cost benefit analysis), approved by the Secretary of Commerce and the Director of the Office of Management and Budget, by February 28, 1986. Such revised plan shall specify the key deployment decision to be made in implementing the plan, as well as such other information as the appropriate Committees may deem necessary.

(2) REPORT BY COMMISSIONER.—The Commissioner shall report to the Committees on the Judiciary of the Senate and the House of Representatives, at least 90 calendar days in advance of the date of implementation of each key deployment decision provided for the revised master automation plan. Each pre-deployment decision shall be approved by the Department of Commerce's designated Senior Official for Information Resources Management prior to submission. Reports of such decisions shall include the cost and method of financing the deployment decision proposed to be implemented including, where appropriate, a comparison with the cost benefit analysis contained in the revised automation master plan, as well as such other information as the committees may consider necessary to carry out such oversight authority.

(b) PROHIBITIONS ON NEW OBLIGATIONS.—The Patent and Trademark Office may not enter into any new contract nor obligate any funds to implement a key deployment decision involving automated data processing systems as specified in subsection (a) prior to the expiration of the 90 calendar days following the submission of each of the applicable reports required in such subsection.

SEC. 6. USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED.

The Commissioner of Patents and Trademarks may not enter into new agreements for the exchange of items or services (as authorized under section 6(a) of title 35, United States Code) relating to automatic data processing resources (including hardware, software and related services, and machine readable data) during fiscal years 1986, 1987, and 1988, nor continue existing agreements for the exchange of such items or services after April 1, 1987. This sec-

tion shall not apply to any agreement relating to data for automation programs entered into with a foreign government or with an international intergovernmental organization.

XI. VOTE OF COMMITTEE

Without objection H.R. 2434 was polled out of the subcommittee with two amendments on February 7, 1986. The first amendment—making changes to sections 1(b), 3, and 6—was unanimously agreed to by the subcommittee. A second amendment—to section 5, on funding for automation—was agreed to by a majority vote of 5 to 2. On February 20, 1986, the Committee on the Judiciary, by voice vote and without objection, ordered the bill as amended by the subcommittee to be reported favorably to the full Senate.

XII. ADDITIONAL VIEWS OF MESSRS. LEAHY AND DECONCINI

We support the Committee amendments to H.R. 2434, the Patent and Trademark Authorization Bill, with one exception.

The Committee's proposed amendment to section 5 of the bill would permit the Patent and Trademark Office to use user fees to fund the automation program now underway at the PTO. We support the House position on this question, and therefore, oppose the Committee amendment to section 5.

Authorization for the current Patent and Trademark user fee scheme was contained in legislation passed by the Congress in 1980 and 1982 (Public Law 96-517 and Public Law 97-247). The Committees made clear, at that time, that users of the Patent and Trademark system should bear a significant cost for operating the system. The Congress was equally clear that functions which conferred no direct benefit to the system users but rather went to meet the general responsibilities of the Federal Government to provide a Patent and Trademark system should be paid for out of appropriated funds. We agree with the House position that capital costs associated with establishing an automated Patent and Trademark system fall into this general category and should be paid for through the use of appropriated funds.

The Patent and Trademark Office automation project is a major, one-time capital investment which has many beneficiaries other than the users of the Patent and Trademark Office who happen to be applying for patents and trademark registrations during the time when the automated system is being developed and implemented. It is unfair to charge a relatively small group of users for an automation project which has much broader benefits.

Automation will benefit the Nation's economy as a whole by providing more effective operation of the patent and trademark systems. It will also benefit users who file patent and trademark applications in later years, after the system is in place. In addition, automation will provide benefits to scientific researchers who use the patent files, and benefits to competitors of patent and trademark owners who investigate the search files to find the status of legal rights. In accordance with section 4 of the bill, these researchers and competitors, who are users of the search rooms, will not be charged any user fees.

In addition, an April 19, 1985 report of the Comptroller General, as well as House and Senate hearings, have made it clear that the use of user fees to fund the automation project has resulted in a poorly planned poorly designed, and poorly managed automation project which may have been carried out in violation of federal law. Again, we agree with the House Judiciary Committee that to properly oversee the automation of the Patent and Trademark Office, the program should be funded through the normal appro-

priations process which guarantees adequate Congressional review and oversight.

The Committee's amendment substitutes a reporting requirement to give the Committees on the Judiciary time to review the Office's automation activities. We believe this approach is unlikely to provide effective review of automation activities at an early stage. The review procedure requires reporting to the Judiciary Committees at least 90 days in advance of the date of implementation of each "key deployment decision." A last minute review before implementation of key deployment decisions is no substitute for a review during the planning stages of the automation projects. By the time key deployment decisions are reached, millions of dollars may have been spent, making it very difficult to change the direction of the project.

We would note that adopting the House position on the use of user fees to fund the PTO automation program will not affect the authorization levels contained in the bill. No additional tax dollars will be authorized or appropriated if the House position is adopted. Automation can be accomplished through reprogramming existing and planned appropriations.

We believe the House position should prevail.

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